国美电器

Stock Code : 493

ANNUAL REPORT 2013

Content

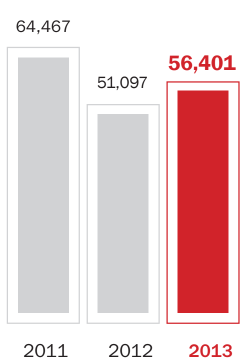
GOME
AT A GLANCE

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

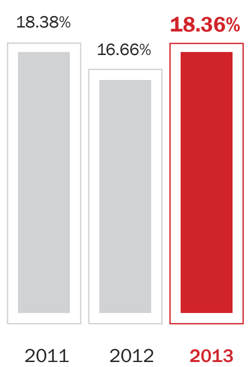
HIGHLIGHT

- During the reporting period, sales revenue of the Group, was approximately RMB56,401 million, increased by 10.38% as compared to the previous year
- Consolidated gross profit margin increased from 16.66% for the previous year to 18.36%
- Profit attributable to owners of the parent company was approximately RMB892 million, increased significant by 222.53%
- Basic earnings per share were RMB5.3 fen
- The Board proposed a final dividend of HK$1.3 cents and a special dividend (in the form of cash and/or shares at the choice of shareholders) of HK$2.0 cents per ordinary share.

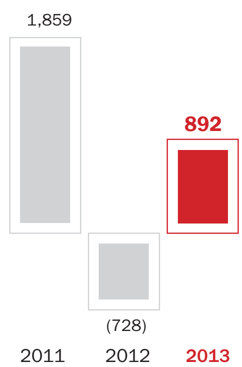
REVENUE
(RMB million)



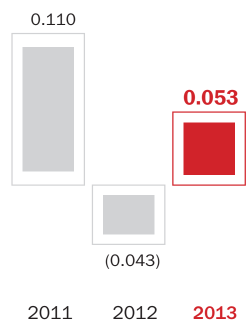
CONSOLIDATED GROSS PROFIT MARGIN*



PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY
(RMB million)



BASIC EARNINGS/(LOSS) PER SHARE
(RMB)

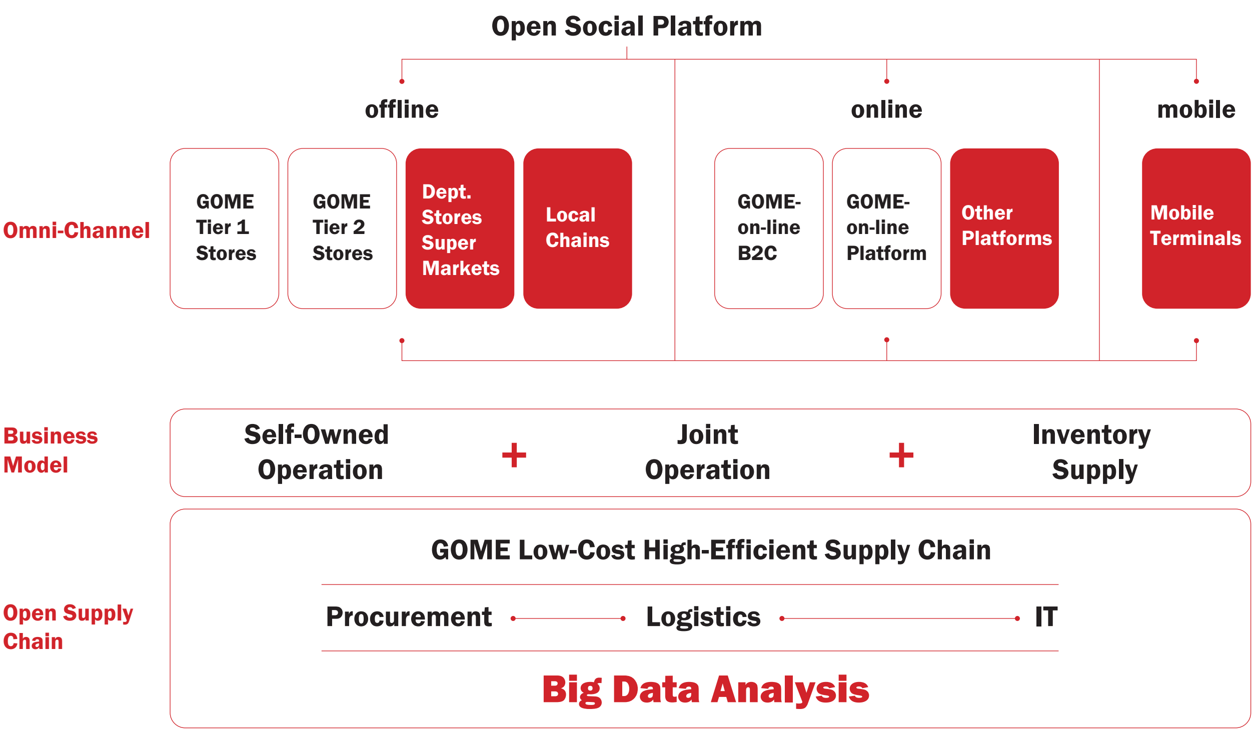


* Consolidated gross profit margin = (gross profit + other income and gains)/revenue

FIVE YEAR
FINANCIAL SUMMARY

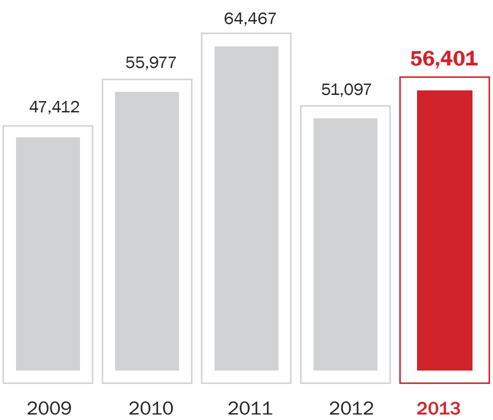
	Year ended 31 December 2013 *RMB'000*	Year ended 31 December 2012 *RMB'000* Restated	Year ended 31 December 2011 *RMB'000* Restated	Year ended 31 December 2010 *RMB'000* Restated	Year ended 31 December 2009 *RMB'000* Restated
Revenue	**56,400,662**	51,097,100	64,466,993	55,977,046	47,411,810
Profit/(Loss) attributable to owners of the parent	**892,475**	(728,498)	1,859,226	1,984,373	1,462,584
Total assets	**39,323,985**	37,712,723	38,745,492	38,208,693	37,656,963
Total liabilities	**24,006,527**	23,043,141	22,780,045	23,445,712	25,849,423
Non-controlling interest	**(609,796)**	(394,766)	(30,469)	–	–
Net assets	**15,317,458**	14,669,582	15,965,447	14,762,981	11,807,540

STRATEGIC LAYOUT
Omni-Channel Retailer:

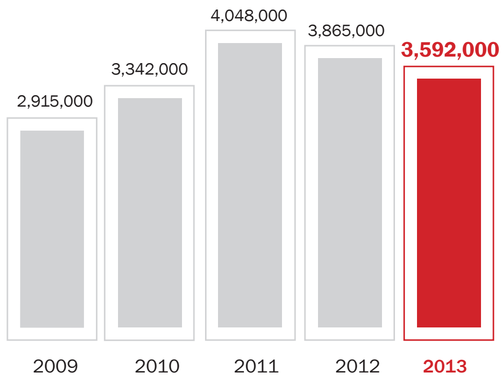


FINANCIAL AND OPERATIONAL HIGHLIGHTS

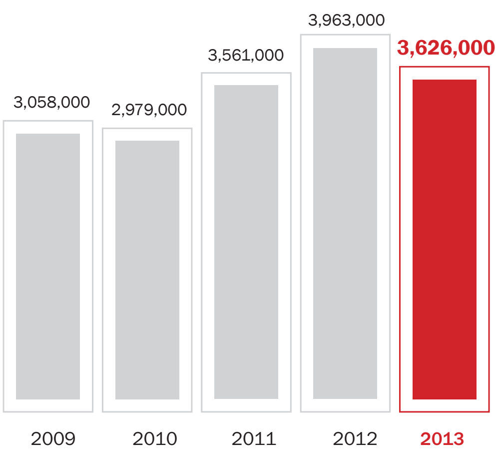
REVENUE
(RMB million)



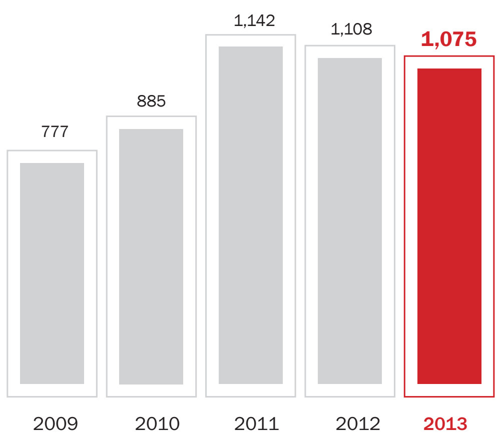
TOTAL SALES AREA AT YEAR END
(sq.m)



WEIGHTED AVERAGE SALES AREA
(sq.m)



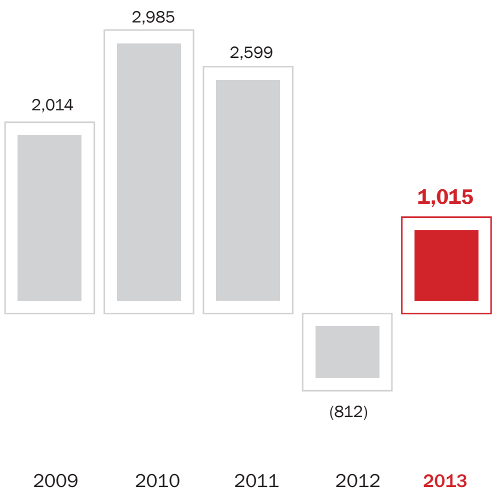
NUMBER OF STORES AT YEAR END



* The 2009 to 2012 figures have been restated

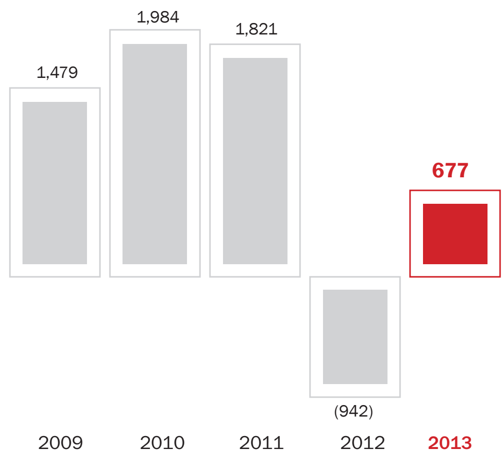
PROFIT/(LOSS) FROM OPERATING ACTIVITIES

(RMB million)



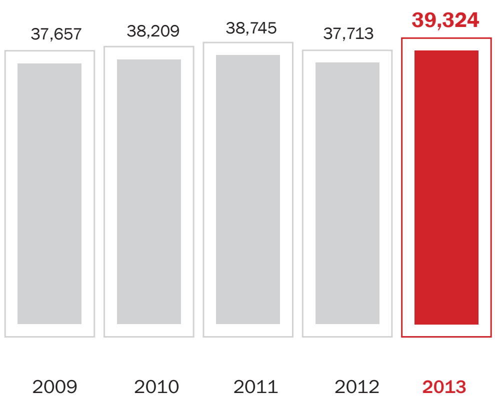
PROFIT/(LOSS) FOR THE YEAR

(RMB million)



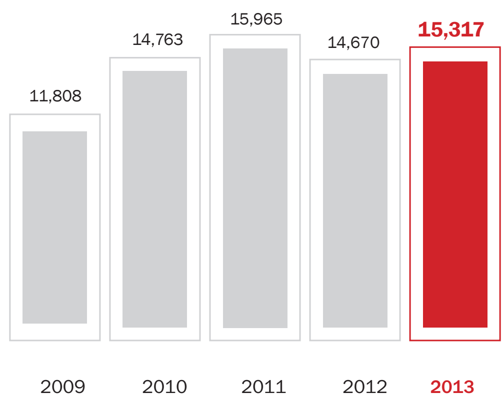
TOTAL ASSETS

(RMB million)



NET ASSETS

(RMB million)




Pioneer

BOSE
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OPEN OMNI – CHANNEL RETAILER

CREATING VALUE

The Group unveiled the “Open Omni-Channel Retailer” strategy in 2014 to upgrade the original supply chain platform, from a close-ended, self-used basis, into a supply chain platform that is open to the public. This platform not only meets the self-operation demands of the online and offline businesses, but can also meet the demand from other social channels.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the past, despite GOME having faced tough challenges, our tenacious people did not give up even at the most difficult time, through strategy refinement and resources re-allocation, we went back on track in 2013. Through our concerted efforts, GOME achieved growth and progress in various business aspects.

The rising popularity of internet applications and rapid growth of e-commerce has profoundly changed the home appliance retail market in the past two years. In future, we will carefully consider and strive for the best to fully leverage and integrate our competitive advantages effectively, to ensure internet application is at the forefront of our operational philosophy, while making customers' experience and sentiments a priority.

In 2013, we determined the multi-channel retailer strategy, continued to consolidate and strengthen our store network, while actively expanded the e-commerce channels to enhance the integration of GOME's online and offline businesses. Meanwhile, we executed the Company's strategy by giving a new definition to the relationship between the three core indicators: sales revenue, gross profit and expenses.

Today, with the advanced development of the internet, sale is defined as the full satisfaction of customers' demands, while the broadening of a loyal customer base will create immense market potential for growth. Following the above definition, GOME operated its business based on customer demand in all aspects, which will serve as the core business model that differentiates us from the competitors in the future. The increase in gross profit will depend on our ability to manage product, GOME's business has shifted gradually from contract management model to product management model. Overall gross profit margin is determined by the product mix, an optimal mix of product will achieve both low-price expected by customers and high-margin required by the Company. As such, our merchandises must cover high, medium and low-end products so as to enrich our product line in order to increase overall competitiveness. In addition, cost control reflects the company's internal management ability, the ability to operate at low cost will always be the core competency and always be GOME's long-term sustainable management target.

An analysis of the current market environment shows GOME's competitive strengths lie in its relatively comprehensive store network which supported by the standardized information system and the logistics platform, as well as the long established supply chain system. In 2013, GOME unveiled the three-year development strategy of "Integrate Resources, Strategy at the Forefront". With this strategy, we set our goal as an "Online and Offline Integrated Multi-Channel Retailer" which will be achieved in three years. This strategy emphasized the sharing of back-end resources (procurement, logistics network, after-sale service network, members and SAP information system) to support a platform that sells both online and offline products. After putting the system into practice for over six months and reviewing the strategy over again, we believed that our strategy should be transformed from a self-supported system to an open strategy which is aligned with the modern era of internet. Therefore, GOME further upgraded its original strategy to become an "Open Omni-Channel Retailer". An "Open Omni-Channel Retailer" will open its supply chain platform to the public. This platform will not only meets the self-operation demands of the online and offline businesses, but also meets the demand from "online + offline + mobile terminals + other social channels". Moving forward, we will follow the blueprint jointly developed by the board of directors and the management to implement the strategy of becoming an "Open Omni-Channel Retailer", with a view to creating greater shareholder values in the long run.

I would like to express my deepest respect and appreciation to all GOME employees for their unstinting efforts and contributions to the Group. I would also like to thank everyone in the community for supporting the Group's development. We have always endeavored to serve the interests of shareholders, employees and customers, while pursuing the Group's long-term sustainable development. I have full confidence in leading GOME towards rapid and steady growth, to overcome all challenges and make GOME the most valuable and competitive omni-channel retailer.

Zhang Da Zhong
Chairman

" We believed that our strategy should be transformed from a self-supported system to an open strategy which is aligned with the modern era of internet. Therefore, GOME further upgraded its original strategy to become an "Open Omni-Channel Retailer". "


永乐
新生活馆


价格
保障
澧宝旗舰店 NO.025
OLYMPUS


Gome
国美电器
规模领先!


国美电器

STORE OPTIMIZATION AND NETWORK EXPANSION

In 2014, the Group will continue to increase its sales by stepping up its effort in network development and product enrichment. It will also focus on improving the supply chain, enhancing the store management as well as the operational capabilities of the stores in the second-tier market in order to provide stronger momentum for the Group's stable and rapid network expansion plan.

MANAGEMENT
DISCUSSION AND ANALYSIS

> During the reporting period, aggregate sales of 897 comparable stores recorded a revenue of approximately RMB47,780 million, up 13.69% from RMB42,027 million in the corresponding period of 2012.

OVERVIEW

During the 2013 reporting period, GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (collectively known as the "Group" or "GOME") spared no effort in implementing its corporate strategic plan for 2013 to 2015. The Company followed its core strategy aimed at satisfying consumer needs and meeting customer demands, with a focus on an all-win principle, to promote the integration of its online and offline businesses. Various performance indicators of the Group showed continuous improvement by following the strategic plan throughout the year.

In 2013, adhered to the consumer-oriented multi-channel retailer development strategy, the Group continuing to evolve from the operational model which focused on the management of different outlets, suppliers and physical stores, to a new model focused on management by products, customers and multi sales channels.

As for its physical stores, the Group focused on customer experience and upgraded a number of super flagship stores. Several stores have started providing Wi-Fi service to allow customers to make price comparisons through the internet in the stores, thereby encouraging them to make the purchase on site. As for procurement, the Group fully utilized the scale advantage of its strong procurement capability to provide high-quality support to its online and offline sales platforms. Meanwhile, in response to the market trend, the Group raised the proportion of differentiated items in its product mix, in particular raising the proportion of high and low-end products procured. For logistics, the Group has developed regional distribution centers gradually to expand the geographical coverage of its delivery services and boost customer satisfaction.

The above measures are also reflected in the Company's financial data. During the reporting period, the Group recorded sales revenue of approximately RMB56,401 million, up 10.38% compared with RMB51,097 million in the corresponding period last year. The performance of physical stores has further improved with the sales revenue from comparable stores growing at 13.69%. The Group's consolidated gross profit margin remained at a relative high level of 18.36%.

Meanwhile, the Group also tightened its control over operating expenses, in particular rental and staff costs which were maintained at a level below the industry average. Operating expenses as a percentage of sales revenue fell from 18.25% in the corresponding period last year to 16.56% this year. Due to the increase in sales revenue and consolidated gross profit margin and effective control in its operating expenses, the Group's profit attributable to the owners of the parent company surged, and has improved significantly from a loss of RMB728 million in the previous year to a profit of approximately RMB892 million for 2013.

With the improvements in its performance and decrease in inventory turnover days, the Group's cash generated from operating activities was approximately RMB1,995 million. Cash and cash equivalents were approximately RMB9,016 million as at 31 December 2013, up by 27.58% compared with RMB7,067 million in the previous year. In view of this, the board of directors of the Company (the "Board") recommended that (1) to declare a 2013 special dividend of HK$2.0 cents (equivalent to RMB1.6 fen per ordinary share); (2) to declare a final dividend of HK$1.3 cents (equivalent to RMB1.0 fen per ordinary share) in accordance with existing dividend policy of the Company; (3) to increase the dividend payout ratio from not more than 30% to 40% of the Group's distributable profit starting from 2014, in order to share the Group's operational achievements with the shareholders.

MANAGEMENT
DISCUSSION AND ANALYSIS

OPERATING ENVIRONMENT

In 2013, the global economy was in a weak recovery stage with stimulus from various fiscal policies. Overall, the operating environment was relatively stable and maintained at slow growth. The US economy continued to recover and recorded consecutive growth for 11 quarters. The Euro-zone economy stabilized amid a downturn and gradually bottomed out. The Japanese economy recovered moderately, while the growth rate of emerging markets and developing countries continued to slowdown. Stimulated by the easing monetary policies of various countries, the global economy is expected to improve in 2014 and grow at a faster pace.

In 2013, China's economy has been steadying for the better. Economic growth rate was relatively the same as compared to the previous year, the price level remained stable, positive progress in economic restructuring pushed the rebound in corporate efficiencies. The economy in China is expected to remain stable in 2014.

From the industry point of view, China's home appliance market grew significantly in 2013, driven by the energy saving subsidy policy and consumers' increasing desire for quality of life. China has entered into an era of consumption upgrades as more consumers pursue middle to high-end appliances with superior quality, stylish appearance and environmental-friendly designs. Online sales has been booming in the home appliance market.

The Group will make timely adjustment to its strategy in response to these favorable market changes in order to achieve sustainable and stable performance.

FUTURE MARKET DEVELOPMENT POTENTIAL

At present, China is in the period of urbanization, shantytowns and public housing construction. Urbanization and new rural construction bring rigid rise in consumer demands. The home appliance industry is gradually moving towards more high-end, intelligent and web-based development stage, with technology innovation and home appliance replacement cycle that stimulates consumer demand. Land reforms in the third and fourth-tier markets have substantially increased the purchasing power of residents, which has also translated to enormous consumer demand.

China's e-commerce market will continue to grow at a relatively fast pace. The online shopping environment is getting more mature, especially in terms of payment and logistics. Online shopping is convenient, because it has no geographical boundary and there is a wide range of products to choose from. Numerous online marketing and promotional activities and increasing penetration rate on internet users are also contributing to the strong growth of the online retail market.

In view of this market environment, in 2014, the Group will continue to evolve into an enterprise with a deep understanding of both retail and e-commerce, aiming to lead the industrial development and become an open omni-channel retailer.

BUSINESS REVIEW

Operations of Stores

Based on the competitive environment of the online and offline markets, as well as its data analysis on consumer behaviour, the Group renovated 18 stores in major cities into superstores to increase customer satisfaction in respect of the shopping experience, store environment, product variety, product displays, high quality-to-price ratio and professional service staff. The renovated stores are more spacious and stylish. These stores have assembled the latest and most popular international luxury home appliances, with in-store Wi-Fi services that creates an interactive product display environment. The full-range online price comparison campaign held at several stores has further increased the transaction rate. The use of service bells in stores has also enhanced efficiency of the stores' services. All the above upgrades have attracted consumers from all age groups and enhanced GOME's brand image. According to a survey of consumers and suppliers, our renovated stores have become the benchmark in several regions. Meanwhile, the Group has also replicated these successful concepts to stores in other regions.

In 2013, the Group stepped up its effort in promoting differentiated products such as ODM/OEM to meet various consumer demands. The Company accelerated its inventory turnover and promptly adapted to market changes by refining its product management. At the same time, the Group has stimulated the consumer demands in the stores by displaying accessories together with associated core products to enrich the product mix, thus the sales of high-margin products, product turnover rates and the stores' operating efficiency have been improved.

Development of Store Network

In 2013, the Group optimized its store network, reduced its rental costs, closed down some underperforming stores, enhanced individual store profitability, increased same store growth and transformed some of the stores to mega stores, in order to strengthen and increase its market share in the first-tier market.

With rapid urbanization in China, there have been a gradual shift of developments from the developed areas to developing regions. Rapid growth in the real estate sector in third and fourth-tier cities resulted in gradual increase in rural household incomes, which created immense development opportunities in the second-tier market.

In 2013, the Group penetrated into second-tier market by opening flagship stores surrounded by satellite stores. The Group increased its product offering and also adopted a "low cost, replicable" strategy to achieve rapid growth in profits in the second-tier market. At the same time, the Group continued to close down loss-making, low-efficient stores and optimize overlapping stores through sub-letting. By focusing on shopping environment in the stores and bringing convenience to the customers, the Group was able to enhance customer experience in the second-tier market.

By establishing a centralized management team which is responsible for the operation of stores in the second-tier market, the Group was able to give momentum to the fast, healthy and stable development of its stores in the second-tier market. Local execution teams were also set up to solve problems such as incomplete product branding as well as shortage in promoters and salespersons. As a result, sales growth was guaranteed.

During the reporting period, the Group added 93 new stores and closed 126 underperforming stores. The total store count was 1,075 by the end of the year. Through a series of adjustments, the Group's rental to sales ratio reduced from 6.31% in the corresponding period of 2012 to 5.34%. The Group rented a total of 1,044 stores among which 122, 153 and 143 lease agreements will be expiring in 2014, 2015 and 2016, respectively. During the reporting period, the Group had 31 self-owned stores with a total area of approximately 204,000 sq.m., accounting for approximately 5.68% of its total operating area. The self-owned properties are mainly situated in the major commercial districts of municipalities like Beijing and Shanghai.

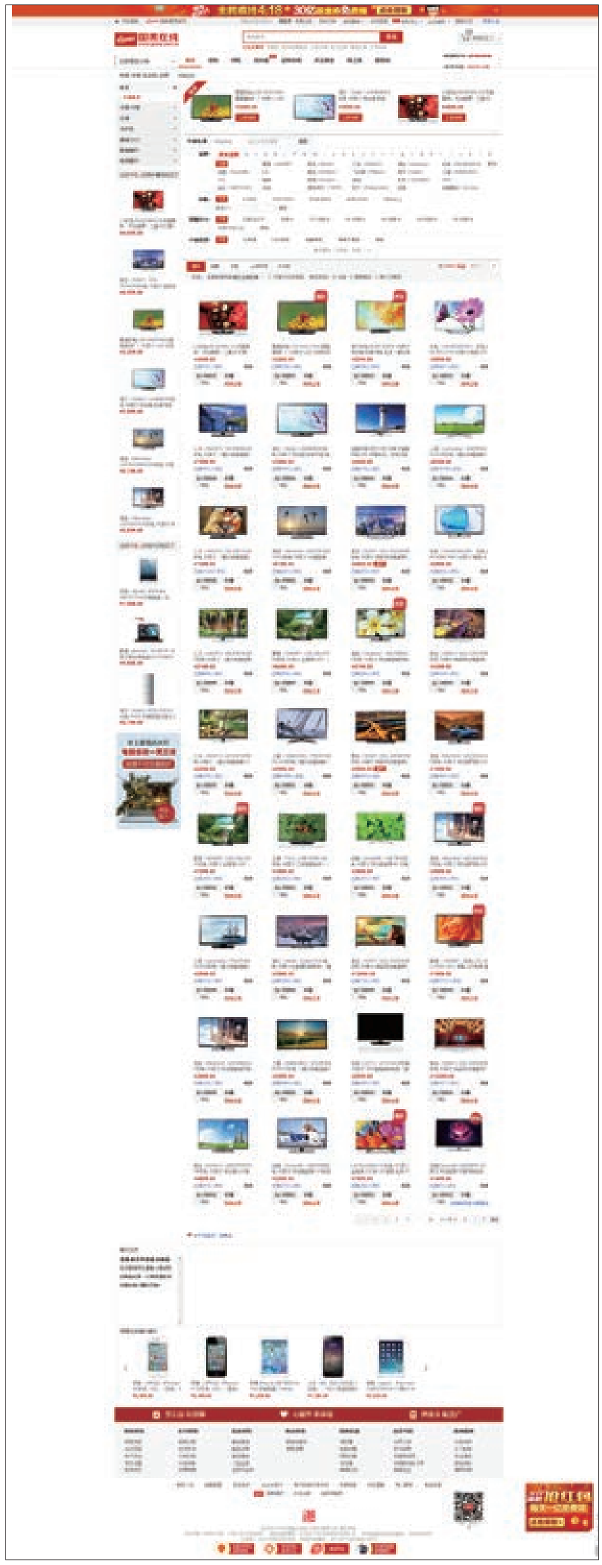
In addition, by the end of 2013, with the inclusion of the 510 Non-listed GOME Group stores managed by the Group, the total number of stores being operated by the Group and the Non-listed GOME Group reached 1,585 and spanned 428 large- and medium-sized cities.

Strengthening E-commerce

In 2013, GOME-on-line, the Group's online platform, promoted the development of the multi-channel business model which emphasized on profitability. It has achieved the sharing of supply chain, logistic service and members' data mining between the online and offline platforms. Currently, GOME-on-line allows customers to place order online and pick up their products in a number of GOME stores and this service will gradually be extended to all GOME stores. By leveraging on the Group's supply chain, GOME-on-line has maintained its strength in delivery of traditional home appliances. On the other hand, it has also established its own logistic team to improve the efficiency of small item delivery. In addition, products with pre-installed applications by the stores and suppliers will be a driver to the development of mobile terminal members of GOME-on-line and will promote gradually the exchange of online and offline membership data as well as member reward points. This will help in promoting mobile and social marketing and raising transaction volume through the mobile terminals.

In addition, GOME-on-line emphasized customer experience and customer loyalty through optimizing the home page experience, product page experience and developing personalized pages.

GOME-on-line has also established an open platform to attract suppliers of traditional home appliances, 3C products, small home appliances and general merchandise to station on its platform. This allows full utilization of its strengths in display, marketing, product variety and traffic to increase the overall sales volume.



THE NATIONWIDE RETAIL NETWORK OF THE GROUP

As at 31 December 2013

“With the inclusion of the 510 Non-listed GOME Group stores managed by the Group, the total number of stores being operated by the Group and the Non-listed GOME Group reached 1,585 and spanned 428 large- and medium-sized cities.”

Development of Network

	Group total	GOME	China Paradise	Dazhong	CellStar
Flagship stores	**212**	150	35	27	–
Standard stores	**327**	273	38	16	–
Specialized stores	**536**	399	82	13	42
Total	**1,075**	**822**	**155**	**56**	**42**
Among them:					
First-tier market	**683**	482	112	52	37
Second-tier market	**392**	340	43	4	5
Net decrease in store number	**(33)**	(20)	(6)	(3)	(4)
Number of stores opened	**93**	77	14	1	1
Among them:					
First-tier market	**47**	40	6	1	–
Second-tier market	**46**	37	8	–	1
Number of cities accessed	**260**	**221**	**59**	**1**	**6**
Among them:					
First-tier cities	**26**	20	9	1	1
Second-tier cities	**234**	201	50	–	5
Number of cities newly assessed	**13**	12	1	–	–

List of stores

Region	Flagship stores	Standard stores	Specialized stores	Total
Beijing	47	33	20	100
Shanghai	25	18	26	69
Tianjin	13	17	10	40
Chengdu	10	28	22	60
Chongqing	10	19	16	45
Xian	14	15	58	87
Shenyang	8	11	10	29
Qingdao	6	12	16	34
Jinan	6	6	15	27
Shenzhen	16	24	34	74
Dongguan	–	11	12	23
Guangzhou	15	26	57	98
Foshan	2	13	19	34
Wuhan	7	17	25	49
Kunming	4	4	20	28
Fuzhou	5	12	25	42
Xiamen	2	12	22	36
Henan	5	13	24	42
Nanjing	1	10	24	35
Wuxi	3	2	9	14
Changzhou	2	6	7	15
Suzhou	4	5	13	22
Hefei	2	5	12	19
Xuzhou	1	1	14	16
Tangshan	1	1	5	7
Lanzhou	3	4	12	19
Wenzhou	–	2	9	11
Total	**212**	**327**	**536**	**1,075**

Building of Supply Chain

Procurement Platform

During the reporting period, the Group focused on optimizing and adjusting its product mix through refined management of high-margin differentiated products and low-price volume products which tailored for customer demands. The objective was to boost profit through high-margin products while increase market share by selling more low-price volume products. The Group has also leveraged on its capital advantage to procure best-selling products and differentiated products with exclusive selling rights from the suppliers in order to dominant the product supplies. The Group will continue to optimize its supply chain, enhance its product competitiveness, expand its sales volume to increase overall profitability.

The Group has formed strategic cooperation with various suppliers such as Haier, Samsung, Sharp, Lenovo, Gree, Midea and Qualcomm, to further optimize its collaborative supply chain, improve operational efficiency and maximize its market share. The Group continued to foster the development of its Enterprise Cooperation Platform (ECP) project, a platform which promotes the synergy of sales data analysis, benefit of joint marketing, product customization as well as resources sharing with suppliers. In 2013, the Group utilized its leading Enterprise Resources Planning (ERP) management information system, to strengthen seamless information sharing with various suppliers. Information such as orders, inventory level, reconciliation and settlement can be shared with the suppliers enabling suppliers to fulfill consumer demands in a timely manner, in order to improve the product supply process and the structure of the supply chain.

During the reporting period, the Group's top five suppliers (by brands) accounted for approximately 39.64% of the total procurement, an increase as compared to 36.64% in the corresponding period of 2012.

Logistics Platform

During the reporting period, the Group continued to promote the development of the logistic platform for its online and offline businesses. The Group's online business has been sharing the inventory, warehouse and logistic services with the offline business for traditional home appliances. Through the modification of information flows in the logistic system, the Group has further improved various processes including order taking, inventory allocation, product availability checking and delivery. This optimized the sharing of online and offline logistic resources and costs, enabled online and offline businesses to possess the same ability to deliver traditional home appliances timely. In addition, to cope with the changing market environment and customer demand on logistic services, the Group carried out various activities to improve the logistic service coverage in terms of distance and services, in particular in the second-tier market, in order to support the expanding store network.

At the end of the reporting period, the Group had 125 distribution centers, including 40 in the first-tier market and 85 in the second-tier market, which occupied a total area of approximately 713,000 square meters.

In accordance with the expansion plan in the second-tier market, the Group will establish regional logistic centers in the second-tier market, inventory reallocation distance will be shortened, inventory turnover rate will be improved, obsolete inventory will be reduced and the overall logistic cost will be further reduced. As the result, GOME stores in the second-tier market will gain competitive advantages from the well supported logistic system.

Information Platform

Through continuous efforts in construction, promotion and implementation in 2013, the Group developed a fully integrated business process with its suppliers. The Group's supplier platform ECP has been developed into a visible, controllable and digitalized system for making supplier contracts and procurement orders, thus the efficiency of the supply chain was greatly enhanced, which made solid foundation for the sharing of the Group's supply chain platform to other parties.

During the reporting period, the Group launched and reached milestones for the construction of internal shared services center. The shared services center carried out reengineering and standardization on business operations through centralized management, to achieve cost reduction, customer satisfaction enhancement, improve service quality as well as to raise business efficiency.

After-sales Services

During the reporting period, with the operating of long established specialized after-sales services companies, the Group enhanced its operational ability by raising the quality of its service teams. It delivered all-rounded and high-quality services to customers throughout the sales process, achieved automatic work allocation by matching with the job locations and provided timely door-to-door service by making appointments. Therefore, the efficiency and quality of service as well as customer satisfaction have been further enhanced.

The after-sales service companies also provided extended warranty services, which helped manufacturers to resolve warranty related issues. The extended warranty services were well-received by customers in 2013 and sales of extended warranty services increased significantly, contributed positively to the Group's profit.

During the reporting period, the Group has improved its membership service by enriching products tailor-made for members and carrying out various members' activities. The Group was able to boost loyalty and satisfaction of its members by managing repeat purchases and making a close connection to its high-value customers to fulfill their individual needs. Going forward, the Group will allow members reward points to be fully utilized on both GOME's online and offline platforms, as a result, members' loyalty to GOME will be further enhanced.

Corporate Governance

The Group strives to continuously improve its corporate governance. The Board consists of one executive director, four non-executive directors and five independent non-executive directors. This Board structure complies with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") that at least one-third of the board of directors should be independent directors to ensure the independence of the Board. Therefore, shareholder opinions are thoroughly deliberated by the Board in a constructive manner before it reaches a consensus.

The Group has adopted the code provisions of the new corporate governance code which came into effect on 1 April 2012 as its corporate governance policy, and the Group has implemented all the requirements under the code provisions to further enhance the Group's corporate governance.

On the operational level, the Group continued to strengthen its internal control on the management systems based on various control points. It has established and implemented a complete and standardized operational policy, to prevent employees from exploiting system loopholes. Meanwhile, the Group relied on a specialized surveillance team which is highly independent, highly focused and empowered with sufficient authority to deter unethical and

illegal activities such as fraudulent personal gain, embezzlement, malpractice, misconduct, unauthorized partnership and acquiescence. The Group has also set up an internal audit system directly reports to the headquarter, to monitor the execution of the financial policies, improve financial control and prevent financial risks.

Corporate Culture

The Group has established a brand philosophy and corporate culture anchored by "Trust". The Group believes that the true substance of a corporation is a public platform for value exchange, value creation and value sharing among the stakeholders. Being a commercial corporation, the Group does not only engage in development of technologies and products, but also manages the ability, attitude and needs of its people (stakeholders including consumers, employees, suppliers and business partners). The Group promotes the trustworthy conduct of its staff by establishing a trusting internal management relationship and encourages to build a trustworthy relationship with suppliers and business partners based on mutual benefit and cooperation, to increase industry collaboration. This will enable the Group to consolidate and explore values of commercial resources, enhance the responsiveness and operation efficiency, reduce transaction costs and management cost continuously, ultimately help customers to build a quality life and earn their trust.

Human Resources

In 2013, the Group refined its human resources policy according to the Group's strategy, focused on enhancing human efficiencies and promoting rapid business development.

After the introduction of the Group's new incentive scheme for stores in 2012, store efficiency per capita and operating performance improved rapidly, while operating costs continued to fall. In 2013, the Group started pushing for higher efficiency in the administrative departments by integrating and upgrading its organizational structure and refining job duties, rationalizing operational procedures and putting proper authorization, as the result, operation efficiency was significantly boosted. In addition, the Group launched a new staff performance scheme, which an employee will be rewarded depend on his/her ranking. The launch of the staff performance scheme has greatly enhanced the work initiatives and passions of the management team. To further implement the staff performance scheme, the Group carried out a management rotation program and a management trainee program in the second half of 2013 to attract new talented people and build up human resources reservoir, this will bring new energy to the Group.

The employee efficiency enhancement program achieved an excellent result in 2013, under the premise of ensuring steady growth in revenue and profit while controlling staff costs to a reasonable level accompanied with average pay rise per head, thus boosted team spirit and morale.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group has adopted International Financial Reporting Standards 10 Consolidated Financial Statements with effect from 1 January 2013 to consolidate the financial statements of Beijing Dazhong Home Appliances Retail Co., Ltd ("Dazhong Appliances"). The comparative figures for the corresponding period of last year have been restated as if the consolidation was done since the date of initial contractual arrangement with Dazhong Appliances.

Revenue

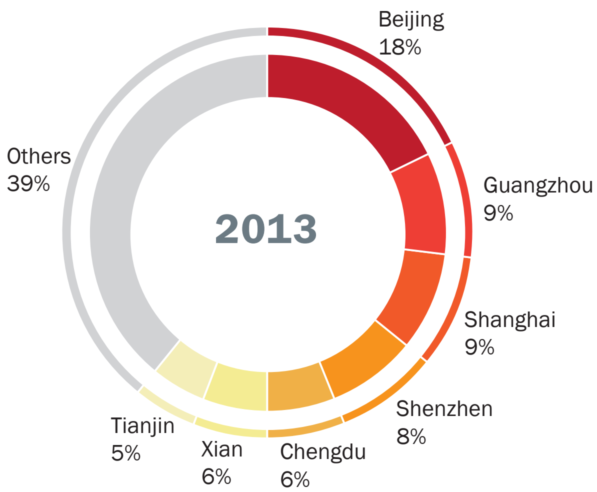
During the reporting period, the Group's revenue was approximately RMB56,401 million, up 10.38% from RMB51,097 million in 2012. The Group's weighted average sales area was approximately 3,626,000 sq.m. and the revenue per sq.m. was approximately RMB15,555, up 20.64% as compared to RMB12,894 in the corresponding period of 2012.

During the reporting period, aggregate sales of 897 comparable stores recorded a revenue of approximately RMB47,780 million, up 13.69% from RMB42,027 million in the corresponding period of 2012. Sales revenue from the four regions of Beijing, Shanghai, Guangzhou and Shenzhen accounted for approximately 44% of the total revenue, down 3 percentage points from 47% in the corresponding period last year, while proportion of revenue from second-tier cities increased.

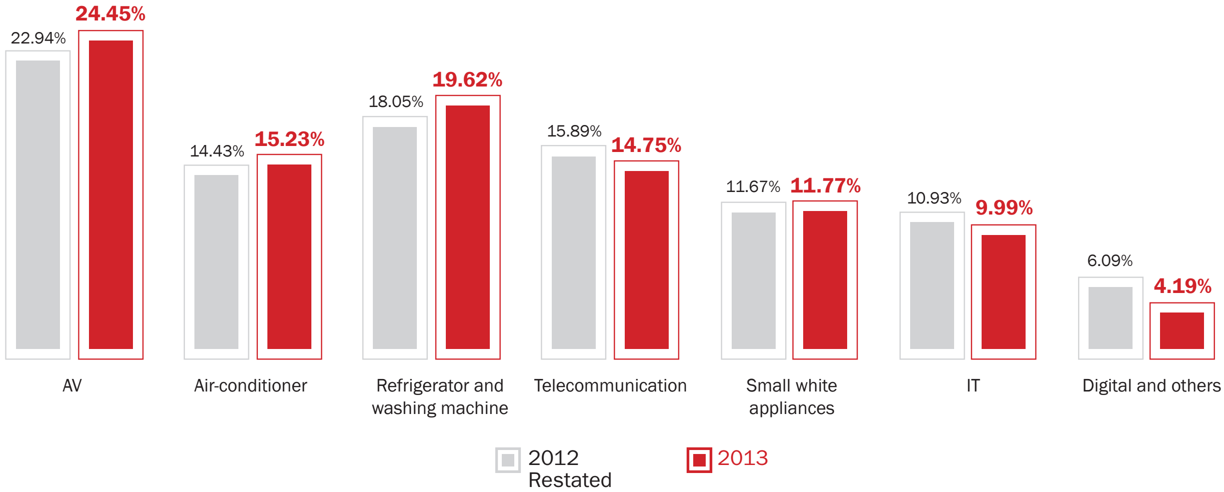
Cost of sales and gross profit

Cost of sales of the Group was approximately RMB47,899 million in the reporting period, accounted for 84.93% of the total revenue, lower than the proportion of 86.65% in the corresponding period of 2012. Gross profit was approximately RMB8,502 million, up 24.64% from RMB6,821 million in the previous year. The gross profit margin was 15.07%, increased by 1.72 percentage points as compared to 13.35% in the previous year. The overall increase in the gross profit margin was driven by the optimization of the product mix and increase in the sales of high-margin products by the Group during the year.

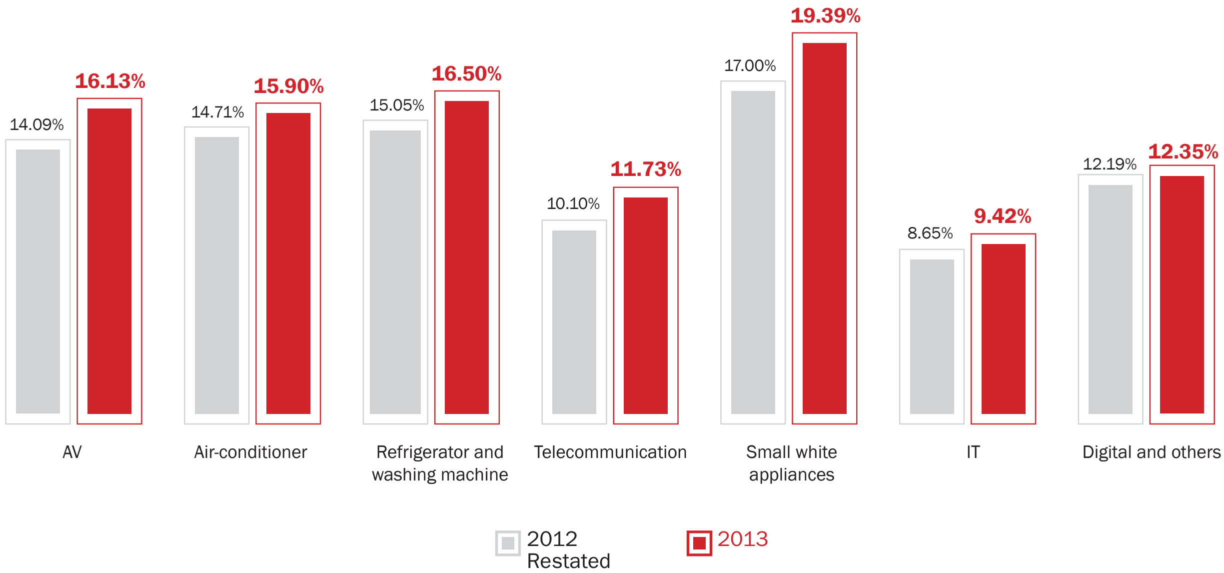
SALES REVENUE OF THE GROUP BY REGION:



PROPORTION OF REVENUE FROM EACH PRODUCT CATEGORY OVER TOTAL REVENUE IS AS FOLLOWS:



THE GROSS PROFIT MARGIN OF EACH PRODUCT CATEGORY IS AS FOLLOWS:



Other income and gains

During the reporting period, the Group recorded other income and gains of approximately RMB1,852 million, representing an increase of 9.46% over that of RMB1,692 million in 2012. The percentage of income from suppliers over sales revenue was 0.88%, lower by 1.08% from the previous year, which was mainly due to income directly recorded in the gross profit as a result of changing contracts terms between the Group and the suppliers.

Summary of other income and gains:

	2013	2012 Restated
As a percentage of sales revenue:		
Income from suppliers, net	0.88%	1.08%
Management and purchasing service fees from the Non-listed GOME Group	0.44%	0.49%
Income from air-conditioner installation	0.19%	0.19%
Gross rental income	0.50%	0.46%
Government grants	0.26%	0.43%
Others	1.01%	0.66%
Total	3.28%	3.31%

Consolidated gross profit margin

During the reporting period, benefited from the differentiated product operation and increase in sales of high-margin products, the Group's consolidated gross profit margin was 18.36%, improved by 1.70 percentage points as compared to 16.66% for the corresponding period last year.

Operating expenses

During the reporting period, the Group's total operating expenses (including selling and distribution expenses, administrative expenses and other expenses) were approximately RMB9,340 million, accounted for 16.56% of total sales revenue, down 1.69 percentage points as compared to 18.25% in the corresponding period of 2012, which was mainly due to the tightening control in the Group's expenses, especially in rental expenses and staff costs.

Summary of operating expenses:

	2013	2012 Restated
As a percentage of sales revenue:		
Selling and distribution expenses	12.68%	14.45%
Administrative expenses	2.77%	2.92%
Other expenses	1.11%	0.88%
Total	16.56%	18.25%

Selling and distribution expenses

During the reporting period, the Group's total selling and distribution expenses decreased from RMB7,381 million to approximately RMB7,153 million, down 3.09%. The percentage over revenue was 12.68%, down 1.77 percentage points as compared to 14.45% in the corresponding period of 2012. To control the rental expenses and the staff cost effectively, the Group has been putting more focuses on optimizing the floor area of the stores and applying optimized workforce to the stores.

Summary of selling and distribution expenses:

	2013	2012 Restated
As a percentage of sales revenue:		
Rental	5.34%	6.31%
Salaries	2.92%	3.24%
Utility charges	0.81%	0.91%
Advertising expenses	1.63%	1.78%
Delivery expenses	0.73%	0.75%
Others	1.25%	1.46%
Total	12.68%	14.45%

Administrative expenses

With the continuous expansion of the Group's scale of operations and the need to support its enhanced management, administrative expenses increased. During the reporting period, the Group's administrative expenses were approximately RMB1,564 million, more than that of RMB1,490 million in the corresponding period of 2012 by 4.97%. The percentage over revenue was 2.77%, decreased by 0.15 percentage points as compared to 2.92% in the corresponding period of 2012. The Group has always been strengthening its control over administrative expenses in order to maintain its administrative expenses to revenue ratio at a relatively low level in the industry.

Other expenses

Other expenses of the Group mainly comprised, among others, business tax and bank charges, which increased from RMB453 million in 2012 to approximately RMB623 million during the reporting period. The percentage over sales revenue was 1.11%, a slight increase as compared to 0.88% in 2012.

Profit/(loss) from operating activities

During the reporting period, as a result of the increase in revenue and gross profit, while maintaining operating expenses at a reasonable level where the percentage of expenses over revenue reduced, the Group's profit from operating activities increased significantly by 225% from a loss of RMB812 million in 2012 to a profit of approximately RMB1,015 million.

Net finance income

During the reporting period, finance costs were reduced as a result of a decrease in the interest expenses on the convertible bonds. Therefore, the Group's net finance income increased from RMB18 million in the corresponding period of last year to approximately RMB180 million.

Profit/(loss) before tax

During the reporting period, the Group's profit before tax was approximately RMB1,195 million, significantly increased as compared with a loss of RMB759 million in 2012.

Income tax expense

During the reporting period, the Group's income tax expense increased from RMB183 million in 2012 to approximately RMB517 million, of which approximately RMB101 million was the 10% withholding tax accrued to the dividend distribution from the PRC subsidiaries to their overseas holding companies. The management considers the tax rate applied to the Group for the reporting period is reasonable.

Net profit/(loss) and earnings/(loss) per share

During the reporting period, the profit attributable to the parent of the Company substantially increased by 222.53% from a loss of RMB728 million last year to a profit of approximately RMB892 million. Basic earnings per share were RMB5.3 fen, as compared with basic loss per share of RMB4.3 fen for the corresponding period last year.

Cash and cash equivalents

As at the end of the reporting period, cash and cash equivalents held by the Group, which mainly denominated in Renminbi and the rest in US dollars, HK dollars and other currencies, were approximately RMB9,016 million, increased by 27.58% as compared with RMB7,067 million as at the end of 2012.

Inventories

As at the end of the reporting period, the Group's inventories amounted to approximately RMB8,221 million, up 5.68% as compared to RMB7,779 million in 2012. Benefited from the optimized inventory management system backed by the ERP system in the supply chain, the inventory turnover period decreased by 13 days from 74 days in 2012 to 61 days in 2013.

Prepayments, deposits and other receivables

As at the end of the reporting period, prepayments, deposits and other receivables of the Group amounted to approximately RMB2,333 million, down 17.94% from RMB2,843 million as at the end of 2012. Mainly due to the receivable balances created from the energy-saving subsidies program as at the end of year 2012 have been settled during the year.

Trade and bills payables

As at the end of the reporting period, trade and bills payables of the Group amounted to approximately RMB18,077 million, up 0.33% from RMB18,017 million as at the end of 2012. Trade and bills payables turnover days were approximately 138 days, decreased by 12 days as compared to 150 days for the previous year.

Capital expenditure

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB436 million, representing a 46.31% decrease as compared with approximately RMB812 million in 2012. The capital expenditure during the year was mainly for the expenses of opening new stores, remodelling of stores and purchase of hardware equipment relating to ERP project by the Group.

Cash flows

During the reporting period, the Group's net cash flows generated from operating activities amounted to approximately RMB1,995 million, a decrease as compared with net cash flows of RMB4,140 million in 2012. Higher cash flows from operating activities in 2012 was the result of a significant decline in the inventory level while in 2013 the inventory level was relatively stable as compared with 2012.

Net cash flows used in investing activities amounted to approximately RMB328 million, showing a decreased as compared with RMB829 million used in 2012.

Net cash flows generated from financing activities amounted to approximately RMB294 million, while net cash used for the corresponding period last year was RMB2,666 million. The amount used in 2012 mainly represented the cash paid for redemption of the convertible bonds issued by the Company.

Dividend and dividend policy

The Board recommended a special dividend of HK$2.0 cents (equivalent to RMB1.6 fen) per ordinary share (the "Special Dividend"), which the shareholders being given an option to elect to receive such Special Dividend all in new shares or partly in new shares and partly in cash (the "Scrip Dividend Scheme"), amount to approximately HK$337,501,000 (equivalent to RMB267,743,000) and a final dividend of HK$1.3 cents (equivalent to RMB1.0 fen) per ordinary share (the "Final Dividend") for the year ended 31 December 2013, amount to approximately HK$219,376,000 (equivalent to RMB173,649,000). Together with the interim dividend of HK0.7 cents (equivalent to RMB0.56 fen) per ordinary share paid in October 2013 (the "Interim Dividend"), the total dividend for the year would amount to HK$4.0 cents (equivalent to RMB3.16 fen) per ordinary share. The total Interim Dividend, Special Dividend and Final Dividend would amount to approximately HK$675,002,000 (equivalent to RMB535,485,000).

The Board recommended that, starting from 2014, the dividend payout ratio of the Company will be increased from not more than 30% to 40% of the Group's distributable profit generated during the relevant financial year. However the actual payout ratio in a financial year will be determined at the Board's full discretion, after taking into account, among other considerations, the working capital requirement of the Group, business environment and availability of investment opportunities.

Contingent liabilities and capital commitment

At the end of the reporting period, the Group has no material contingent liabilities, but there were capital commitments of approximately RMB107 million.

Foreign currencies and treasury policy

All the Group's income and a majority of its expenses were denominated in Renminbi. However, as Renminbi has been appreciating against HK dollars and US dollars, the Group has adopted effective measures to reduce such risks. The Group's treasury policy is that it will only manage such exposure (if any) when it poses a significant potential financial impact on the Group.

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

Financial resources and gearing ratio

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

As at 31 December 2013, the total borrowings of the Group, being interest-bearing bank loans which mainly denominated in US dollars and the rest in HK dollars, amounted to approximately RMB2,683 million, to the extend that RMB1,159 million were at fixed interest rates. The interest-bearing bank loans will be repayable within one year. The Group's financing activities have been continuingly supported by its bankers.

As at 31 December 2013, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to approximately RMB2,683 million over total equity amounting to approximately RMB15,317 million, slightly increased to 17.52% from 16.59% as at 31 December 2012.

Charge on group assets

As at the end of 2013, the Group's bank acceptance credit, bills payable and interest-bearing bank loans were secured by the Group's time deposits amounting to approximately RMB6,407 million, certain inventories with a carrying value of approximately RMB573 million and certain buildings and self-owned properties of the Group with a carrying value of approximately RMB389 million. The Group's bills payable amounted to approximately RMB12,085 million.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK AND PROSPECTS

The Group unveiled the "Open Omni-Channel Retailer" strategy in 2014 to upgrade the original supply chain platform, from a close-ended, self-used basis, into a supply chain platform that is open to the public. This platform not only meets the self-operation demands of the online and offline businesses, but can also meet the demand from other social channels. In terms of sales platforms, the Group will integrate the offline businesses such as department stores, supermarkets and local home appliance chain stores and other internet channels, with its self-operated online and offline businesses. The result is to develop an open and collaborative model premised on mutual success, forming an omni-channel sharing platform for "online + offline + mobile terminals + other social channels" through joint operations and inventory supply. The Group will focus on the following aspects to promote this strategy: opening up a supply chain platform to the public, store network development and e-commerce development.

Open Supply Chain Platform

The Group will continue to build its open supply chain platform, which includes: (1) the construction of an integrated procurement platform shared by both internal and external parties, (2) the development of regional based modern logistic and warehouse system in core cities to cover a wider range of servicing areas, (3) the development of an integrated IT platform with standardized data collection process, offering flexibility on modules designed for different business segments, as well as establishing a grand database to support data mining and analysis to improve the decision making process.

Procurement platform is the core of the supply chain of the Group. However, the Group realized that under the current business model, it has little control over retail prices. Therefore, the Group has to build up its own capability in product management to increase its control over prices. The Group will gradually increase the percentage of products with price setting rights in the future, based on customer's demand, increase its high-margin products to boost profit while selling more low-price fast moving products to increase market share. The Group will also enjoy competitive advantages from its differentiated and customized products by leveraging on its procurement volume. Building on its strong procurement platform, the Group will then share this platform to other public channels to further enhance the advantages of scale.

Currently, all e-commerce players are pursuing logistic networks and striving to attract customers by enhancing their shopping experiences. The Group has a nation-wide logistic system to support both online and offline businesses, in particular for traditional home appliances. Moving forward, the Group will be transforming from a multi-channel operation model, which supports GOME's offline, online and external businesses, to an omni-channel logistic model which supports self-operated or jointly-operated "offline + online + mobile terminals" businesses, in order to strengthen the competitive advantage. The Group will continue to enhance transparency of its logistic operation to strengthen control and optimize logistic cost.

The Development of the Group's information system will be guided under the "Open Omni-Channel Retailer" strategy to assist in opening up the supply chain, on the one hand to ensure the standardization and consistency of the raw data, on the other hand to achieve flexibility and expandability on modules for various business terminals. In 2011, the Group has successfully migrated to the SAP system. Leveraging on this advanced system, the Group will be able to generate more traffics to its physical stores, GOME-on-line and mobile terminals by offering better customer services, products as well as electronic payment services. The Group's suppliers will also be benefited from the customer information shared by this powerful information system.

Store Network Development

Despite the rapid development of e-commerce, the Group's store network continues to offer its customers a shopping experience that cannot be achieved by e-commerce. To improve the competitiveness and same store growth, the Group will continue to strengthen its services, product mix, customer experience and shopping environment in its stores by leveraging on its price and service advantages.

In 2014, the Group will continue to increase its sales by stepping up its effort in network development and product enrichment. It will also focus on improving the supply chain, enhancing the store management as well as the operational capabilities of the stores in the second-tier market in order to provide stronger momentum for the Group's stable and rapid network expansion plan. The Group will rely on its strength in the nation-wide store network to outperform its competitors, and will continue to focus on the same-store growth on the one hand and lower its rental cost by optimizing store areas on the other hand through sub-letting, lease termination, as well as closing down underperforming stores, in order to maintain its overall competitiveness.

In recent years, sales of home appliances in the department stores, supermarkets and local home appliance chain stores continued to be effected by the rise of e-commerce. While losing their competitive edge, many retail channels merely made a profit or even a loss. This provides the Group the best opportunity to promote channel integration. The Group will promote its channel integration strategy in a more open-ended approach that emphasizes mutual success, and will pursue flexible models of collaboration such as self-owned operation, joint operation and inventory supply. This is a new growth driver and breakthrough for the Group, signifying another step towards becoming an omni-channel retailer.

E-Commerce

In 2013, the Group continued to facilitate the integration of the procurement and logistics between GOME-on-line and offline stores. GOME-on-line has been evolving from a self-run business to become part of the Group's operation, sharing the high-efficient, low-cost supply chain and logistics network. In the future, GOME-on-line will focus more on the user experience throughout the shopping process, establishing a sound structure of data flow and achieving sustainable growth in customer visits. At the same time, it will leverage on the strengths of the Group's supply chain, fully tap on the advantages of the sales of communication products in the stores to enlarge its customer base from mobile terminals rapidly, optimize and fulfill online operation by all the means, to become a leading home appliance and electronic consumer products B2C platform.

HIGHLIGHTS OF THE YEAR

NOVEMBER 2013

- At the 6th World Economic and Environmental Conference jointly held in Beijing by the United Nations, the International Energy Conservation Environmental Protection Association and other organisations, GOME won the individual category's "China Green-Benefit Enterprise Award – Best Model" of the International Carbon-Value Award for its remarkable performance in the area of low-carbon and sustainable development.
- Organised by China Chain Store & Franchise Association ("CCFA"), the 15th China Retail Trade Fair themed "Retail transition strategy: mode & motive" was held in Chengdu, at which Mr. Wang Junzhou, GOME's President, was elected vice president of CCFA and GOME won the "CCFA Retail Innovation Award", "CCFA Gold-Medal Store Manager" and "Top Ten Gold-Medal Store Managers"of the year.
- At the "4G Future – 2013 GOME and Qualcomm Communication Trend Summit" (引領4G創新未來 – 2013國美&高通通訊趨勢高層峰會) hosted by GOME and Qualcomm in Beijing, the parties commenced a profound discussion and cooperation in respect of the growth trends of smart products in the 4G era, transition of mobile communication business and the joint development of smart mobile terminal products with the upstream and downstream players in the industry chain including three main operators, world-renowned mobile phone manufacturers and content providers to greet the arrival of 4G era.

OCTOBER 2013

- At the "Fridge & Washer Family – 2013 China Refrigerator & Washer Trend Seminar" in Beijing, which was hosted by GOME with various manufacturers.During the event, GOME entered into a grand procurement of 9.60 million units of refrigerators and washers with those manufacturers.
- At the 2013 (19th) China's Top 100 Most Valuable Brands presented in Paris, France, GOME was the only Chinese home appliance retailer selected on the list with a brand value of RMB71.602 billion and was ranked first amongst all Chinese home appliance retailers in terms of brand value for the seventh consecutive year.
- At the "China Consumer News 2013 Annual Information Work Conference" (中國消費者報2013信息工作年會) in Lanzhou, Gansu jointly held by China Consumers' Association and China Consumer News, GOME was the only home appliance retailer awarded for the "2013 Annual Quality Customer Service Advanced Unit" (2013年度優質客戶服務先進單位).

SEPTEMBER 2013

- At the 8th Asia Brand Ceremony in Hong Kong which was jointly hosted by Asia Brand Association, Research Centre of the State-owned Assets Supervision and Administration Commission of the State Council, School of Business of Remin University of China and authoritative media bodies, GOME was the only selected home appliance retailer and was granted the "Ten Most Trustworthy Brand Award in Asia".

HIGHLIGHTS
OF THE YEAR

AUGUST 2013

- Due to typhoons and heavy rains, flooding was reported throughout Guangdong where Chaonan, Shantou suffered most. Concerned with the welfare of the victims, GOME and the Non-listed GOME Group immediately formed a rescue and relief team, quickly gathered and donated RMB6.00 million worth of supplies to the people in distress.

JULY 2013

- At the "Smart Living Through TV – 2013 China TV Trend Conference" (智能生活視界在握 – 2013中國彩電趨勢研討會) held in Beijing, GOME entered into a grand procurement of 5.95 million units of TV with Skyworth, Konka, Sharp, TCL, Changhong, Hisense, Haier, LG, Sony, Samsung, Sanyo, etc.

- GOME was granted the "Best Services Innovation Award in China" (中國最佳服務創新獎) at the 2012-2013 (8th) Election of the Best Customer Services in China organised by the election committee of the Best Customer Services in China (中國最佳客戶服務評選組委會).

JUNE 2013

- GOME was ranked second in China Top 100 Retailers in 2012 published by China General Chamber of Commerce.

MAY 2013

- At the "Love – Development 2013: Charitable Fund Show in Binhai Hi-tech Zone" ('愛•成長2013'濱海高新區•愛心基金彙報演出) hosted by Tianjin Children's Welfare Institute (天津市兒童福利院) in Tianjin Binhai Hi-Tech Zone, GOME made a donation of RMB200,000 to show its care for orphans and actively called for participation of the community to raise the awareness on the lives of children orphans in China.

APRIL 2013

- There was a magnitude-7.0 earthquake in Lushan, Ya'an city, Sichuan province. GOME immediately announced a RMB4.00 million (including relief funds and supplies) donation for early relief work in the affected areas of Ya'an and delivered urgent supplies including water, instant noodles, tents, raincoats and rain boots to the affected areas.

- GOME and Samsung pursued an in-depth discussion in respect of 2013 strategic deployment and proposed to enter into a three-year strategic cooperation on procurement & sales, product launches, information sharing, training, joint efforts in second-tier cities' and business development and supply chain optimisation. All of the above indicates that the relationship of between GOME and Samsung has ascended to "2.0 era".

MARCH 2013

- At the "Trust & Victory in China – Profound Strategic Cooperation Conference" in Beijing (信赢中國－國美&微軟深化戰略合作發布會) jointly organised by GOME and the world's leading software and solution provider Microsoft. GOME entered into a cooperation memorandum with Microsoft to promote genuine software products and entered into a grand procurement of 3.00 million units of computers with computer manufacturers in calling the community to combat against piracy.
- At the "Health, Ecology & Responsibility – 2013 China Air-conditioner Consumption Trend Conference" (健康、生態、責任－2013中國空調消費趨勢發布會) organised by GOME with a number of air-conditioner manufacturers, GOME and China Market Monitor Co., Ltd. jointly published the "Report on Air-conditioner Consumption Trend in China for 2013" (《2013年中國空調消費趨勢報告》) and entered into a grand procurement of 5.50 million units of air-conditioners with many air-conditioner manufacturers, and jointly announced the letter of initiation to call for healthy and green consumption.
- GOME was accredited by China Consumer Protection Foundation as the "Consumer Protection Interest 15 March 2013 – Quality Service Unit" (2013年3.15保護消費權益－誠信服務滿意單位).
- GOME was recognised as the "China Excellent Model Enterprise in 'Quality and Service Integrity' Commitment" (全國「質量和服務誠信」承諾優秀示範企業) by China Association for Quality.

FEBRUARY 2013

- According to the report on 2012 Global Powers of Retailing published by Deloitte US and the chart of the top 250 global retail enterprises, GOME ranked the No. 1 Chinese home appliance retailer for the fourth consecutive year.

JANUARY 2013

- At the 7th China Electronics Brand Value Review Committee Election organised by Safe Production Special Committee of China Electronic Commerce Association and Strategic Brand Research Institute of China (中華戰略品牌研究院), GOME, with a brand value of RMB73.958 billion in 2012, was regarded as the "No.1 Chinese Electronics Store in Brand Value of 2012" (2012年度中國電子賣場品牌價值第一名).

COLLABORATIVE STRATEGY

E-COMMERCE DEVELOPMENT

In the future, GOME-on-line will focus more on the user experience throughout the shopping process, establishing a sound structure of data flow and achieving sustainable growth in customer visits. At the same time, it will leverage on the strengths of the Group's supply chain, fully tap on the advantages of the sales of communication products in the stores to enlarge its customer base from mobile terminals rapidly, optimize and fulfill online operation by all the means, to become a leading home appliance and electronic consumer products B2C platform.


快乐 · 信


中國
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DIRECTORS
AND SENIOR MANAGEMENT PROFILE

CHAIRMAN

Mr. ZHANG Da Zhong

Mr. ZHANG Da Zhong, aged 65, has been the Chairman and non-executive Director of the Company since 10 March 2011. Mr. Zhang was the founder of Beijing Dazhong Electrical Appliances Co. Ltd., one of the leading domestic appliances retail chains in mainland China. Mr. Zhang sold all of his interests in Beijing Dazhong Electrical Appliances Co., Ltd. in late 2007 and established Beijing Dazhong Investment Co. Ltd., a company that engages primarily in private equity investment in which he is currently the president. Mr. Zhang had been honored as "China's Outstanding Private Entrepreneur" (中國優秀民營企業家) and "Outstanding Builder of Chinese Featured Socialism" (優秀中國特色社會主義事業建設者), and was a member of the 8th Chinese People's Political Consultative Conference of Beijing, a member of the standing committee for both the 9th and 10th Chinese People's Political Consultative Conference of Beijing and a member of the standing committee of the 13th Beijing People's Congress. Mr. Zhang is currently the deputy chairman of the Beijing Commerce Federation (北京市商會).

EXECUTIVE DIRECTOR

Mr. ZOU Xiao Chun

Mr. ZOU Xiao Chun, aged 44, has been an executive Director of the Company and the Vice President of the Group since 17 December 2010 and has been recently re-designated as the Senior Vice President of the Group in March 2012 from the Vice President of the Group, mainly responsible for the Chinese legal and compliance matters and other deal-specific projects of the Group and is also a director of various subsidiaries of the Company. Mr. Zou graduated from the Department of Law of Nanchang University (formerly known as Jiangxi University) (南昌大學（原江西大學） 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) in July 1991. Mr. Zou was also granted the Chinese Tax Advisers Qualification Certificate (中國稅務師資格證書) in September 1995 and the Pass Certificate for the National Notary Public Qualification Examination (國家公證員資格考試合格證書) in December 1995. Furthermore, Mr. Zou was qualified as an industrial economist (工業經濟師) in October 1996. Mr. Zou has been a practising lawyer for 20 years and has practised in legal areas relating to capital markets in the People's Republic of China for 10 years. In June 2006, Mr. Zou founded Beijing John & Law Firm (北京市中逸律師事務所) and has been acting as the founding

NON-EXECUTIVE DIRECTORS

Mr. ZHU Jia

partner and the managing partner until May 2011. Between 2001 and 2011, 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), both of which are owned or controlled by Mr. Wong Kwong Yu, a controlling shareholder of the Company. Between December 2008 and March 2011, Mr. Zou was a director and vice chairman of Beijing Centergate Technologies (Holding) 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 since May 2012, has been re-appointed as a director of such company. Since 2011, Mr. Zou has been appointed as a member of the Executive Committee of GOME Holding Group Company Limited (國美控股集團有限公司), which company is owned or controlled by Mr. Wong Kwong Yu, a controlling shareholder of the Company, and since June 2011, has been appointed as a director and vice chairman of Sanlian Commercial Co., Limited (三聯商社股份有限公司) (a company listed on the Shanghai Stock Exchange).

Mr. ZHU Jia, aged 51, has been a non-executive Director of the Company since 3 August 2009 and was re-appointed as non-executive Director of the Company by the Board of the Company on 11 May 2010 right after he was not re-elected as non-executive Director of the Company on the same date at the annual general meeting of the Company. 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. Mr. Zhu has been appointed as a non-executive director of Sunac China Holdings Limited since September 2009, a non-executive director of Greatview Aseptic Packaging Company Limited since July 2010, a non-executive director of Clear Media Limited since August 2011 and also the chairman of the board of such company between August 2011 and December 2012 (the above three companies are all listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange")). Mr. Zhu is also an independent director of YouKu Tudou Inc. (formerly known as Youku.com Inc.) (a company listed on the New York Stock Exchange) since November 2007. He was also a non-executive director of Sinomedia Holding Limited, a company listed on the Hong Kong Stock Exchange, between November 2006 and May 2013.

DIRECTORS
AND SENIOR MANAGEMENT PROFILE

Ms. WANG Li Hong

Mr. CHEUNG Leong

Ms. WANG Li Hong, aged 46, has been a non-executive Director of the Company since 3 August 2009 and was re-appointed as non-executive Director of the Company by the Board of the Company on 11 May 2010 right after she was not re-elected as non-executive Director of the Company on the same date at the annual general meeting of the Company. Ms. Wang is currently a managing director of Bain Capital Asia, LLC. Ms. Wang has more than 20 years of experience in the banking and finance industry in the United States and Asia. Before joining Bain Capital Asia, LLC in July 2006, Ms. Wang was an executive director at Morgan Stanley from April 2005 to July 2006, worked at J.P. Morgan Securities Asia Pacific Limited from October 2001 to March 2005 and Credit Suisse First Boston (U.S.) from September 1999 to September 2001. Ms. Wang obtained a Master Degree in Business Administration from Columbia Business School and was a graduate from Fudan University.

Mr. CHEUNG Leong, aged 42, has been a non-executive Director of the Company since 28 June 2012. Mr. Cheung is currently an operating partner with Portfolio Company Advisors Asia, LLC, an affiliate of Bain Capital Group. Prior to joining the Bain Capital in 2008, Mr. Cheung was a managing director of global sourcing and supply chain of Esquel Group. He was a project leader with the Boston Consulting Group prior to his employment with the Esquel Group. Mr. Cheung received a Master of Business Administration degree from the Harvard Business School and a Bachelor of Business Administration degree from the Chinese University of Hong Kong. Mr. Cheung currently serves on the Court and Council of the Lingnan University and is a member of the advisory committee for the Quality Migrant Admission Scheme of the Hong Kong Special Administrative Region.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SZE Tsai Ping, Michael

Mr. CHAN Yuk Sang

Mr. SZE Tsai Ping, Michael, age 68, has been an independent non-executive director of the Company since 31 October 2002. Mr. Sze has over 30 years of experience in the financial and securities field. He graduated with a Master of Laws (LLM) degree from the University of Hong Kong. He was a former member of the Securities and Futures Appeals Tribunal. He was also a former council member and member of the Main Board Listing Committee of the Hong Kong Stock Exchange. Mr. Sze is an independent non-executive director of Greentown China Holdings Limited since 2006, and Harbour Centre Development Limited and Walker Group Holdings Limited since 2007, all of which are listed on the Hong Kong Stock Exchange. He was formerly a non-executive director of Burwill Holdings Limited (a company listed on the Hong Kong Stock Exchange) from June 2000 to October 2011. Mr. Sze is a fellow of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and also a fellow of the Hong Kong Institute of Directors Limited.

Mr. CHAN Yuk Sang, aged 68, has been an independent non-executive Director of the Company since 20 May 2004. Mr. Chan has more than 30 years of experience in the banking and finance industry. Mr. Chan was the chairman of Century Legend (Holdings) Limited from September 1999 to July 2002 and a director of Hong Kong Building & Loan Agency Ltd. from 1993 to 1995, both being companies listed on the Hong Kong Stock Exchange. Mr. Chan was a senior general manager of a local bank and an executive director of a joint Chinese foreign bank in Shenzhen. Mr. Chan is currently an independent non-executive director of Four Seas Mercantile Holdings Limited, a company listed on the Hong Kong Stock Exchange, and has been appointed as an independent non-executive director of Imagi International Holdings Limited (a company listed on the Hong Kong Stock Exchange) since 11 May 2010. Mr. Chan was also an independent non-executive director of Opes Asia Development Limited (a company listed on the Hong Kong Stock Exchange) between April 2011 and June 2012.

DIRECTORS
AND SENIOR MANAGEMENT PROFILE

Mr. LEE Kong Wai, Conway

Mr. NG Wai Hung

Mr. LEE Kong Wai, Conway, aged 59, has been an independent non-executive Director of the Company since 10 March 2011. Mr. Lee received a bachelor's degree in arts from the Kingston University (formerly known as the Kingston Polytechnic) in London in July 1980 and further obtained his postgraduate diploma in business from the Curtin University of Technology in Australia in February 1988. Mr. Lee served as a partner of Ernst & Young for 29 years until 2009 and had held key leadership positions in the development of such firm in China. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants. Mr. Lee currently also serves as an independent non-executive director of Chaowei Power Holdings Limited, West China Cement Limited and China Modern Dairy Holdings Limited, companies listed on the main board of the Hong Kong Stock Exchange, since June 2010, July 2010 and October 2010, respectively, In addition, Mr. Lee has been appointed as an independent non-executive director of Tibet 5100 Water Resources Holdings Ltd. (a company listed on the Hong Kong Stock Exchange), CITIC Securities Company Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange), NVC Lighting Holding Limited (a company listed on the Hong Kong Stock Exchange) and Yashili International Holdings Limited (a company listed on the Hong Kong Stock Exchange) since March 2011, August 2011, November 2012 and November 2013, respectively. Mr. Lee was an independent non-executive director of Sino Vanadium Inc. (a company listed on the TSX Venture Exchange in Canada) between October 2009 and December 2011, China Taiping Insurance Holdings Company Limited (a company listed on the Hong Kong Stock Exchange) between October 2009 and August 2013. Mr. Lee has been appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China since 2007.

Mr. NG Wai Hung, aged 50, has been an independent non-executive Director of the Company since 10 June 2011. Mr. Ng is a practising solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has extensive experience in the areas of securities law, corporate law and commercial law in Hong Kong and China trades and has been involved in initial public offerings of securities in Hong Kong as well as corporate restructuring, mergers and acquisitions and takeovers of listed companies in Hong Kong. Mr. Ng is an independent non-executive director of HyComm Wireless Limited since January 2008, Fortune Sun (China) Holdings Limited since June 2006, Tech Pro Technology Development Limited since April 2011, Trigiant Group Limited since August 2011, Perception Digital Holdings Limited since January 2013 and Sustainable Forest Holdings Limited since February 2013, all being companies listed on the Hong Kong Stock Exchange. Mr. Ng was also an independent non-executive director of Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited) from September 2008 to February 2010, KTP Holdings Limited from November 1999 to February 2011 and Tomorrow International Holdings Limited (currently known as Talent Property Group Limited) from March 2000 to January 2012, all being companies listed on the Hong Kong Stock Exchange.

Ms. LIU Hong Yu

Ms. LIU Hong Yu, aged 50, has been an independent non-executive Director of the Company since 10 June 2013. Ms. Liu is a Chinese practising lawyer. Ms. Liu is the founding partner of Jincheng Tongda and Neal. Prior to that, Ms. Liu was the managing partner of Beijing Tongda Law Offices between April 1993 and April 2004, the legal adviser to Agricultural Bank of China (Beijing Branch) between May 1988 and April 1993 and a cadre of the People's Bank of China (Sichuan Province) between July 1985 and May 1988.

Ms. Liu graduated from Southwest University of Political Science and Law in 1985 with a Bachelor Degree in Law and obtained a Master Degree in Economic Law from the Graduate School of Chinese Academy of Social Sciences in 1998 and an Executive Master Degree in Business Administration (EMBA) from Guanghua School of Business Management of Peking University in 2003. Ms. Liu is also qualified as a Chinese economist.

Ms. Liu was a member of the National Committee of the 11th Chinese People's Political Consultative Conference and a deputy to the 12th and 13th Beijing Municipal People's Congress, and is currently a member of the National Committee of the 12th Chinese People's Political Consultative Conference and a deputy to the 14th Beijing Municipal People's Congress. Ms. Liu is also a member of the 9th All-China Youth Federation, an executive member of the All China Female Lawyers Association and a legal consultancy expert of the Beijing Municipal Commission of Development and Reform.

Ms. Liu was an independent director of Founder Technology Group Company Limited (a company listed on Shanghai Stock Exchange) between April 2005 and June 2011 and Chongqing Three Gorges Water Conservancy and Electric Power Co., Ltd. (a company listed on Shanghai Stock Exchange) between June 2009 and June 2012. Ms. Liu is currently an independent director of China Real Estate Corporation Limited (formerly known as Chongqing International Enterprise Investment Co., Ltd.) (a company listed on Shenzhen Stock Exchange), an independent non-executive director of China Machinery Engineering Corporation (a company listed on Hong Kong Stock Exchange) and an external supervisor of Bank of Beijing Co., Ltd. (a company listed on Shanghai Stock Exchange).

Except as disclosed above, none of the Directors is related to any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

SENIOR MANAGEMENT

Mr. WANG Jun Zhou, aged 52, has been the President of the Group since 28 June 2010. He is also a director of various subsidiaries of the Company. Mr. Wang was the Executive Vice President of the Group during the period from November 2006 to June 2010 and an executive Director of the Company between December 2008 and June 2011. Mr. Wang is responsible for the overall management of daily operations, including the formulation of the Group's medium and long-term strategic plans and annual budgets as well as standardisation of various systems, processes and authorisations for the Group. Mr. Wang also assists in providing guidance and Elitevision as to the daily operations in each major region and each division of the Group as well as the appraisal and review for business management teams at all levels. Mr. Wang has over 10 years of experience in the sale and management of electrical appliances. Mr. Wang joined the Group in 2001 and previously held positions as general manager of the operations centre, general manager of the Southern China Region and general manager of the strategic and cooperation centre of the Group. Mr. Wang is a director and the chairman of the board of Sanlian Commercial Co., Ltd., a company listed on the Shanghai Stock Exchange.

Mr. FANG Wei, aged 42, has been re-designated as the Chief Financial Officer of the Group since September 2011. Before the re-designation, Mr. Fang had been the Acting Chief Financial Officer of the Group since November 2008. He is also a director of certain subsidiaries of the Company. Mr. Fang is responsible for the overall planning and implementation of the Group's internal budget as well as the accounting and auditing system. Mr. Fang also participates in major decision making in relation to the investment, financing and operations of the Group. Mr. Fang is a graduate of the accounting faculty of Central University of Finance and Economics (中央財經大學會計系) and a holder of a Master degree in Management. He is qualified as a senior accountant and senior economist in China. Mr. Fang has extensive and solid experience in finance management, internal control, budget control and capital management. Since 1994, Mr. Fang had held senior management positions in China National Electronics Import & Export Corporation (中國電子進出口公司), KPMG Huanzhen and 北京朝歌寬帶數碼科技有限公司. He joined the Group in January 2005, had held positions as assistant director and the director of the finance centre and member of the execution committee of the Group, and was granted the "Special Contribution Award for Year 2011" by the Group. Mr. Fang was named as the "Talented Youth of Retail Sector in China for Year 2008" (2008年度中國零售業青年英才) by China Business Herald (中國商報) and linkshop.com.cn (聯商網) jointly as well as "Ten High-Profile Persons in Cash Management for Year 2012" (2012年現金管理十佳風雲人物) by China Finance and Trade Magazine (中國財貿雜誌) and China Treasury Research and Development Centre (財資研究發展中心) jointly.

Ms. WEI Qiu Li, aged 46, has been re-designated as the Senior Vice President of the Group since March 2012. Before the re-designation, Ms. Wei had been the Vice President of the Group since November 2006 and was an executive Director of the Company between January 2009 and June 2011. She is also a director of various subsidiaries of the Company. Ms. Wei is mainly responsible for the medium-to-long term strategic planning, preparation of annual budget, standardisation of various policies, systems and authorisations, organisational planning and human resources training of the Group. Ms. Wei has over 10 years of experience in human resources and administrative management. Ms. Wei joined the Group in 2000 and had previously held positions as director of the management centre, director of the pricing centre, director of the human resources centre and director of the administration centre of the Group. Ms. Wei was a director of Beijing Centergate Technologies (Holding) Co. Ltd. (北京中關村科技發展（控股）股份有限公司), a company listed on the Shenzhen Stock Exchange, between 11 January 2007 and 15 January 2009.

Mr. LI Jun Tao, aged 48, has been re-designated as the Senior Vice President of the Group since March 2012, is a director of various subsidiaries of the Company and a member of the decision-making committee. Mr. Li joined the Group in 1988 and has assumed senior management roles in areas such as municipal, provincial, business and operational sectors of the Group. Before the re-designation, Mr. Li was the Vice President of the Group. Currently, Mr. Li is responsible for the business operation and management of the Group and is one of the important decision makers in relation to the business operations and development strategies of the Group. Mr. Li was graduated from China Europe International Business School (中歐國際工商學院) with Executive Master Degree in Business Administration (i.e. EMBA). Mr. Li is now the chairman of the supervisory committee of Sanlian Commercial Co. Ltd. (a company listed on the Shanghai Stock Exchange).

Mr. MU Gui Xian, aged 41, has been re-designated as the Senior Vice President of the Group since March 2012, mainly responsible for the management of the information system, e-commerce, logistics services and OEM/ODM business of the Group. Before the re-designation, Mr. Mu was the Vice President of the Group. He has over 10 years of experience in sales and marketing of retail business. He is also a director of various subsidiaries of the Company. Mr. Mu joined the Group in 2001 and had previously held positions as assistant director of the management centre, general manager of the store management centre, general manager of Region 1 of the Northern China Region, general manager of the Beijing Area, general manager of Northern China and general manager of the telecommunication subsidiary of the Group. Mr. Mu was named as one of the "100 Influential Persons of the Mobile Phone Industry in China for Year 2008" (2008年度中國手機界影響力100人).

Mr. HE Yang Qing, aged 50, has been re-designated as the Senior Vice President of the Group in late 2012, mainly responsible for the operation and management of the operation system (such as the first-tier market operation centre, second-tier market operation centre, chain development centre, customer service centre, information centre, etc.) as well as the brand management centre of the Group. Before the re-designation, Mr. He was the Vice President of the Group. Mr. He joined the Group in 2003 and had previously held positions as a member of the decision-making committee and assistant director of the sales centre of the Group. Mr. He has over 20 years of extensive and solid experience in the industries of retail sale and manufacture of home electrical appliances, was named as "Top Ten Persons of Brand Building in China for Year 2005" (2005年中國品牌建設十大人物) and "Ten Outstanding Brand Managers in China for Year 2007" (2007年中國十大傑出品牌經理人), and was awarded "Advertisers' Great Wall Award – Meritorious Figure Award for Year 2011" (廣告主長城獎－2011年度人物功勛獎).

REPORT OF THE DIRECTORS

The board of directors (the “Directors”) of the Company (the “Board”) have pleasure in submitting its report and the audited financial statements of GOME Electrical Appliances Holding Limited (the “Company“) and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the retailing of home appliances and consumer electronic products in China. The Group’s revenue is mainly derived from business activities in the Mainland China. An analysis of the Group’s income for the year is set out in note 5 to the financial statements on page 128.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Statement of Profit or Loss on page 83 and Consolidated Statement of Comprehensive Income on page 84.

The state of affairs of the Group as at 31 December 2013 is set out in the Consolidated Statement of Financial Position on pages 85 to 86.

The cash flows of the Group for the year are set out in the Consolidated Statement of Cash Flows on pages 89 to 90.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 29 to the financial statements on page 169.

DIVIDENDS

SPECIAL DIVIDEND

The Board recommended the payment of a special dividend for the year ended 31 December 2013 of HK$2.0 cents (equivalent to RMB1.6 fen) per ordinary share (the “Special Dividend”) to the shareholders of the Company (“Shareholders”) whose name appear on the register of members of the Company on 4 April 2014 (“Record Date”), with the shareholders being given an option to elect to receive such Special Dividend all in new shares or partly in new shares and partly in cash (the “Scrip Dividend Scheme”). The total Special Dividend amount is approximately HK$337,501,000 (equivalent to RMB267,743,000).

The Scrip Dividend Scheme is subject to The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) granting the listing of, and permission to deal in, the new shares to be issued pursuant thereto.

A circular giving full details of the Scrip Dividend Scheme together with the relevant form of election will be sent to the Shareholders on or around 22 April 2014. It is expected that the Special Dividend and certificates for the new shares of the Company will be dispatched to Shareholders on or around 23 May 2014.

FINAL DIVIDEND

In addition to the Special Dividend, the Board also recommended a final dividend of HK$1.3 cents (equivalent to RMB1.0 fen) per ordinary share (the “Final Dividend”) for the year ended 31 December 2013 amount to approximately HK$219,376,000 (equivalent to RMB173,649,000).

Together with the interim dividend of HK0.7 cents (equivalent to RMB0.56 fen) per ordinary share paid in October 2013 (the "Interim Dividend") and the Special Dividend mentioned above, the total dividend for the year would amount to HK$4.0 cents (equivalent to RMB3.16 fen) per ordinary share. The total Interim Dividend, Special Dividend and Final Dividend would amount to approximately HK$675,002,000 (equivalent to RMB535,485,000) in aggregate.

The payment of the Final Dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting. The Company will announce the record date for the Final Dividend, the book closure dates for determining the entitlement for the Final Dividend and the proposed payment date of the Final Dividend in due course in accordance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") and applicable laws.

ANNUAL GENERAL MEETING

A notice convening the annual general meeting of the Company will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

RESERVES

The amounts and particulars of material transfers to and from reserves of the Company and of the Group during the year are set out in note 31 to the financial statements on pages 173 to 175 and in the consolidated statement of changes in equity.

As at 31 December 2013, the Company's reserves available for distribution to shareholders of the Company amounted to RMB538,236,000 (2012: negative RMB351,503,000) of which RMB441,392,000 has been proposed for the Special Dividend and the Final Dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the year are set out in note 12 to the financial statements on pages 139 to 140.

MAJOR SUPPLIERS AND CUSTOMERS

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

– the largest supplier	13.72%
– five largest suppliers combined	39.64%

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

The business of the Group is principally engaged in retail business and the percentage of turnover for the year attributable to the Group's five largest customers was less than 30% of the Group's total turnover.

DONATIONS

During the year, the Group has made charitable and other donations in Hong Kong and China totaling RMB5.36 million.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. ZOU Xiao Chun	
Mr. NG Kin Wah	(passed away on 13 October 2013)

Non-Executive Directors

Mr. ZHANG Da Zhong
Mr. ZHU Jia
Ms. WANG Li Hong
Mr. CHEUNG Leong

Independent Non-Executive Directors

Mr. SZE Tsai Ping, Michael	
Mr. CHAN Yuk Sang	
Mr. LEE Kong Wai, Conway	
Mr. NG Wai Hung	
Ms. LIU Hong Yu	(appointed with effect from 10 June 2013)

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions which are disclosed in notes 23 and 34 to the financial statements on page 164, and pages 178 to 180 respectively and in the section headed "Connected Transactions" hereinbelow, there were no contracts of significance, to which any member of the Group was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, no Director of the Company was interested in any business (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which were considered to compete or were likely to compete, whether directly or indirectly, with the businesses of the Group.

However, during the year, Mr. Wong Kwong Yu ("Mr. Wong"), Ms. Du Juan being the spouse of Mr. Wong and Ms. Huang Xiu Hong being a sister of Mr. Wong, who remained as directors of certain subsidiaries of the Company had beneficial interest or held directorship or otherwise had control in companies which operate an electrical appliances and consumer electronics products retail network under the brand name "GOME" in different cities in China (the "Non-listed GOME Group") separate from the Group.

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2013, the interests and short positions of the Directors and chief executive of the Company (the "Chief Executive") in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in the shares, the underlying shares and debentures of the Company

Name of Directors/ Chief Executive	Personal interest	Interest of spouse	Corporate interest	Trustee	Total	Approximate % shareholding
Zhu Jia	1,168,920	–	–	–	1,168,920	0.01
Wang Jun Zhou	10,187,000 *(Note 1)*	–	–	–	10,187,000	0.06

Notes:

1. The relevant interest represented 10,187,000 shares issuable upon exercise of the Options granted to the Chief Executive pursuant to the Share Option Scheme. These Options were held by the Chief Executive beneficially.

Short positions in the shares, the underlying shares and debentures of the Company

Save as disclosed above, as at 31 December 2013, none of the Directors, Chief Executive or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At the annual general meeting of the Company held on 15 April 2005, the Company adopted a share option scheme (the "Share Option Scheme") pursuant to which the Board may grant share options to subscribe for shares of the Company (the "Shares") to employees, executives and officers of the Group and such other persons as referred to in the Share Option Scheme whom the Board considers will contribute or have contributed to the Group (the "Participants") to provide them with incentives and rewards for their contribution to the Group *(Note)*. On 7 July 2009, share options to subscribe for an aggregate of 383,000,000 Shares had been granted pursuant to the Share Option Scheme. Save for the Share Option Scheme, the Company has no other share option scheme.

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

Note: As at 20 March 2014, a maximum number of Shares available for issue under the Share Option Scheme was 371,617,032 Shares (including options for 97,638,000 ordinary shares that have been granted but not yet exercised), representing approximately 2.2% of the issued share capital of the Company as at 20 March 2014.

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

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

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

Consideration of HK$1.00 was paid on the grant of the Option by each grantee.

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

SHARE OPTION SCHEME

As at 31 December 2013, Options to subscribe for an aggregate of 97,952,000 Shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per Share	Number of Options: As at 1 January 2013	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	As at 31 December 2013 (Note 1)	Price of Shares for Options exercised during the year (Note 5)
		HK$						HK$
Chief Executive								
Wang Jun Zhou	7 July 2009	1.90	11,263,000	–	–	(1,076,000)	10,187,000	–
Other employees	7 July 2009	1.90	122,004,700	–	–	(34,239,700)	87,765,000	–
						(Note 4)		
Total			133,267,700	–	–	(35,315,700)	97,952,000	

Notes:

1. On 5 December 2011, a resolution was passed by the shareholders of the Company to amend the terms of the Options granted and the terms of the Share Option Scheme. On 31 August 2012, another resolution was passed by the Board to further amend the terms of the Options granted. As at 31 December 2013, the revised terms would have the following effects:

   a. 73,940,000 vested Options will become lapsed and ceased to have any further effect after 15 November 2015.

   b. Up to 16,008,000 Options may be exercised commencing from 15 May 2014 and will become lapsed and ceased to have any further effect after 15 November 2015.

   c. Up to 8,004,000 Options may be exercised commencing from 15 May 2015 and will become lapsed and ceased to have any further effect after 15 November 2015.

   d. In addition to the changing of the exercise periods of the Options, performance targets were added as a new condition for the exercise of the unvested Options above. Such performance targets are to be determined based on the weighted average of revenue and profits generated, new stores opened, special projects and other administrative work undertaken by the grantee, the compliance of the relevant internal and external law and regulations by the grantee and by reference to his/her seniority and job functions within the Group. Any grantee whose performance is assessed to be short of the performance target will have his/her number of unvested Options for vesting in the forthcoming exercise period adjusted downward and cancelled in proportion to the shortfall of his performance assessment to the performance target when such Options are vested.

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

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

4. 35,315,700 Options were lapsed during the year ended 31 December 2013.

5. The price of Shares disclosed for the Options exercised during the year is the weighted average of the closing price, quoted on the Hong Kong Stock Exchange immediately before the date of exercise of Options.

6. No Options was exercised during the year ended 31 December 2013.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or Chief Executive, as at 31 December 2013, other than the Directors or the Chief Executive as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Nature	Number of ordinary Shares held	Approximate % of shareholding
Mr. Wong *(Note 1)*	Long position	5,417,539,490	32.10
Ms. Du Juan *(Note 2)*	Long position	5,417,539,490	32.10
Shinning Crown Holdings Inc. *(Note 3)*	Long position	4,550,100,000	26.96
Bain Capital Asia Integral Investors, LP. *(Note 4)*	Long position	1,665,546,935	9.87
Bain Capital Investors, LLC *(Note 5)*	Long position	1,665,546,935	9.87
BlackRock, Inc. *(Note 6)*	Long position	1,195,805,242	7.09
	Short position	5,280,000	0.03
Carmignac Gestion	Long position	848,009,394	5.03

Notes:

(1) Of these 5,417,539,490 Shares, 4,550,100,000 Shares were held by Shinning Crown Holdings Inc. and 624,453,890 Shares were held by Shine Group Limited (both companies are 100% beneficially owned by Mr. Wong), and 237,321,600 Shares were held by Smart Captain Holdings Limited and 5,664,000 Shares were held by Wan Sheng Yuan Asset Management Company Limited (both companies are 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong).

(2) Ms. Du Juan is the spouse of Mr. Wong. The aforesaid Shares that Mr. Wong and Ms. Du Juan are deemed to be interested refer to the same parcel of Shares.

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

(4) Bain Capital Asia Integral Investors, LP. was interested in these Shares through its interests in controlled corporations.

(5) Bain Capital Investors, LLC was interested in these Shares through its interests in controlled corporations. These interests are duplicated by the interests disclosed in note 4 above.

(6) BlackRock, Inc. held a long position in 1,195,805,242 Shares and a short position in 5,280,000 Shares in its capacity as interest of a corporation controlled by a substantive shareholder. Of these Shares, there were a long position in 84,359,000 Shares and a short position in 1,883,000 Shares which were listed derivatives that could be cash settled.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2013 are set out in note 19 to the financial statements on pages 152 to 160.

CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions and arrangements with connected persons (as defined in the Listing Rules) of the Company which are required to be reported in this annual report in compliance with the disclosure requirements under Chapter 14A of the Listing Rules:

(1) The Master Supply Agreement

On 17 March 2005, 國美電器有限公司 (GOME Appliance Company Limited) ("GOME Appliance"), a wholly owned subsidiary of the Company, and 北京國美電器有限公司 (Beijing GOME Electrical Appliance Co., Ltd.) ("Beijing GOME"), a company beneficially owned by Mr. Wong and thus, a connected person of the Company entered into a conditional supply agreement (the "Master Supply Agreement") pursuant to which the Group agreed to sell electrical appliances and consumer electronic products to Beijing GOME, from time to time on an at-cost basis for a term of three financial years up to 31 December 2007. On 21 December 2007, Beijing GOME entered into a supplemental agreement to the Master Supply Agreement (the "Master Supply Supplemental Agreement") with GOME Appliance, pursuant to which certain terms of the Master Supply Agreement were amended and the term of the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement) was extended from 31 December 2007 to 31 December 2010.

On 31 December 2010, GOME Appliance and Beijing GOME entered into a second supplemental agreement to the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement) (the "Second Supplemental Master Supply Agreement"). Pursuant to the Second Supplemental Master Supply Agreement, the term of the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement and the Second Supplemental Master Supply Agreement) was extended from 31 December 2010 to 31 December 2012.

On 17 December 2012, GOME Appliance and 國美電器零售有限公司 (GOME Electrical Appliances Retail Co. Ltd.) ("GOME Retail") a company indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company entered into an agreement (the "2012 Master Supply Agreement") to renew the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement and the Second Supplemental Master Supply Agreement), pursuant to which the Group agreed to supply electrical appliances and consumer electronics products to the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015 as requested by the Non-listed GOME Group from time to time on an at-cost basis, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB550 million, respectively.

(2) The Master Purchase Agreement

On 17 March 2005, GOME Appliance and Beijing GOME entered into a conditional purchase agreement (the "Master Purchase Agreement") pursuant to which the Group agreed to purchase electrical appliances and consumer electronic products from Beijing GOME from time to time on an at-cost basis for a term of three financial years up to 31 December 2007. On 21 December 2007, Beijing GOME entered into a supplemental agreement to the Master Purchase Agreement (the "Master Purchase Supplemental Agreement") with GOME Appliance, pursuant to which certain terms of the Master Purchase Agreement were amended and the term of the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement) was extended from 31 December 2007 to 31 December 2010.

On 31 December 2010, GOME Appliance and Beijing GOME entered into a second supplemental agreement to the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement) (the "Second Supplemental Master Purchase Agreement"). Pursuant to the Second Supplemental Master Purchase Agreement, the term of the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement and the Second Supplemental Master Purchase Agreement) was extended from 31 December 2010 to 31 December 2012.

On 17 December 2012, GOME Appliance and GOME Retail entered into an agreement (the "2012 Master Purchase Agreement") to renew the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement and the Second Supplemental Purchase Agreement), pursuant to which the Non-listed GOME Group agreed to supply electrical appliances and consumer electronics products to the Group for a period of three years from 1 January 2013 to 31 December 2015 as requested by the Group from time to time on an at-cost basis, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB550 million, respectively.

(3) The First Master Agreement and the Second Master Agreement

On 25 May 2012, 北京國美鋭動電子商務有限公司 (Beijing GOME Ruidong e-Commerce Co., Ltd.) ("GOME Ruidong"), a company owned by Mr. Wong and his associates subscribed for a 40% interest in the enlarged capital of each of 庫巴科技（北京）有限公司 (Kuba Technology (Beijing) Co.,Ltd.) (" Kuba") and 國美在線電子商務有限公司 (GOME-on-line e-Commerce Co., Ltd.) ("GOME-on-line") (formerly known as 新鋭美電子商務有限公司 (Xinruimei E-Commerce Co., Ltd.)) for an aggregate consideration of RMB73,333,333. Upon completion of the subscription, each of Kuba and GOME-on-line became an associate of Mr. Wong and thus a connected person of the Company, and agreements (the "First Master Agreement") and (the "Second Master Agreement") were entered into to regulate the continuing connected transactions in relation to Kuba and GOME-on-line arisen as a result of the subscription.

Pursuant to the terms of the First Master Agreement, GOME Appliance will, or will procure its nominee (being a member of the Group) to, supply general merchandise (including electrical appliances and consumer electronic products) and provide logistics services (including warehousing and delivery of general merchandise to end customers) and after-sales services (including repairs, maintenance and customer service of general merchandise to end customers) to Kuba and GOME-on-line from time to time during the term of the First Master Agreement. The Second Master Agreement has similar terms, pursuant to which GOME Ruidong will, or will procure its nominee (being a member of the Non-Listed GOME Group) to, supply general merchandise (including electrical appliances and consumer electronic products) and provide logistics services (including warehousing and delivery of general merchandise to end customers) and after-sales services (including repairs, maintenance and customer service of general merchandise to end customers) to Kuba and GOME-on-line from time to time during the term of the Second Master Agreement. The First Master Agreement and the Second Master Agreement comprise of three limbs of (a) supply of products, (b) provision of logistics services and (c) provision of after-sales services.

Each of the First Master Agreement and the Second Master Agreement has an annual cap of RMB800 million for the period from the date of the agreement up to 31 December 2012 and for each of the two years ending 31 December 2014.

In order to cater for the operational needs of the Group, the Company entered into the following agreements on 5 March 2013 to reorganise abovementioned (1) to (3) continuing connected transactions of the Group:

(a) The Group terminated the 2012 Master Supply Agreement, the 2012 Master Purchase Agreement, the First Master Agreement and the Second Master Agreement, respectively, with the original other parties of the agreements;

On the same day, the Group entered into the following agreements:

(b) Logistics services agreements (the "First Logistics Services Agreement") and (the "Second Logistics Services Agreement") for the provision of logistics services (including warehousing and delivery of general merchandise to end customers) by the Group, GOME Ruidong and the Non-listed GOME Group to Kuba and GOME-on-line for a period of three years from 1 January 2013 to 31 December 2015, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB150 million, respectively. During the year, the total transaction amounts under the First Logistics Services Agreement and the Second Logistics Services Agreement were approximately RMB11.67 million and RMB3.44 million, respectively.

(c) After-sales services agreements (the "First After-Sales Services Agreement") and (the "Second After-Sales Services Agreement") for the provision of after-sales services by the Group, GOME Ruidong and the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015 to Kuba and GOME-on-line, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB150 million, respectively. During the year, the total transaction amounts under the First After-Sales Services Agreement and the Second After-Sales Services Agreement were approximately RMB1.39 million and RMB0.26 million, respectively.

(d) The master merchandise purchase agreement (the "Master Merchandise Purchase Agreement") for the supply of general merchandise (including electrical appliances and consumer electronics products) by GOME Ruidong and the Non-listed GOME Group to the Group (including Kuba and GOME-on-line) for a period of three years from 1 January 2013 to 31 December 2015, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB5 billion, RMB6.5 billion and RMB8 billion, respectively. The agreement and the annual caps were approved by the independent shareholder's of the Company in the special general meeting held on 2 April 2013. During the year, the total transaction amount under the Master Merchandise Purchase Agreement was approximately RMB733.10 million.

(e) The master merchandise supply agreement (the "Master Merchandise Supply Agreement") for the supply of general merchandise (including electrical appliances and consumer electronics products) by the Group to Kuba, GOME-on-line and the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB5 billion, RMB6.5 billion and RMB8 billion, respectively. The agreement and the annual caps were approved by the independent shareholders of the Company in the special general meeting held on 2 April 2013. During the year, the total transaction amount under the Master Merchandise Supply Agreement was approximately RMB1,455.79 million.

(4) The Purchasing Service Agreement

The Group negotiated with various suppliers for both the Group and the Non-listed GOME Group, being connected persons of the Company, on a centralized basis to benefit from the volume purchases and to secure more favourable terms from suppliers. The Group provided purchasing services to the Non-listed GOME Group (other than GOME Home Appliances (H.K.) Limited ("Hong Kong GOME")), and charged the Non-listed GOME Group a fee at the rate of 0.9% of the revenue generated from the sales of the Non-listed GOME Group (other than Hong Kong GOME) which was determined with reference to the gross profit margin of the Non-listed GOME Group pursuant to a purchasing service agreement dated 29 July 2004 (the "2004 Purchasing Service Agreement").

The 2004 Purchasing Agreement had subsequently been supplemented and renewed on 4 December 2006 (the "2006 Purchasing Service Agreement") and on 22 June 2009, 昆明恒達物流有限公司 (Kunming Hengda Logistics Company Limited) ("Kunming Hengda"), an indirect wholly-owned subsidiary of the Company, entered into a purchasing service agreement (the "2010 Purchasing Service Agreement") with GOME Retail, a subsidiary of Beijing GOME (a connected person of the Company), pursuant to which Kunming Hengda will provide and will procure other members of the Group to provide purchasing services to the Non-listed GOME Group for a period of three years from 1 January 2010 to 31 December 2012. The terms of the 2010 Purchasing Service Agreement are the same as those in the 2006 Purchasing Service Agreement.

On 17 December 2012, Kunming Hengda, 西寧國美電器有限公司 (Xining GOME Appliance Company Limited) ("Xining GOME"), 天津鵬盛物流有限公司 (Tianjin Pengsheng Logistics Company Limited) ("Tianjin Pengsheng") and 昆明國美物流有限公司 (Kunming GOME Logistics Company Limited) ("Kunming Logistics"), all being indirect wholly-owned subsidiaries of the Company, entered into an agreement (the "2012 Purchasing Service Agreement") with GOME Retail, 南寧國美物流有限公司 (Nanning GOME Logistics Co., Ltd.) ("Nanning Logistics") and 天津國美恒信物流有限公司 (Tianjin GOME Hengxin Logistics Co., Ltd.) ("Tianjin Hengxin"), all being indirectly owned by Mr. Wong and his associates thus, are connected persons to the Company, pursuant to which Kunming Hengda, Xining GOME, Tianjin Pengsheng and Kunming Logistics agreed to provide and to procure other members of the Group to provide purchasing services to the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015 subject to a cap on the purchasing service fee of RMB150 million for each financial year. During the year, the total transaction amount under the 2012 Purchasing Service Agreement was approximately RMB150 million.

(5) The Management Agreement

The Non-listed GOME Group is managed by the same management team of the Group for systematic brand building, enhancing market information exchange and optimizing the use of resources. The Group charged the Non-listed GOME Group a management fee at the rate of 0.75% of the total revenue of the Non-listed GOME Group if the revenue is equal to or less than RMB5 billion or at the rate of 0.6% if the revenue exceeds RMB5 billion, which is determined with reference to the expected expenses to be allocated to the Non-listed GOME Group by the head office of the Company and the expected revenue to be generated from the Non-listed GOME Group based on the anticipated business growth, pursuant to a management agreement (the "2004 Management Agreement") dated 29 July 2004 entered into between 天津國美商業管理諮詢有限公司 (Tianjin GOME Commercial Consultancy Company Limited) ("Tianjin Consultancy"), a subsidiary of the Company, and Beijing GOME.

The 2004 Management Agreement was supplemented and renewed on 4 December 2006 (the "2006 Management Agreement") and on 22 June 2009, 濟南萬盛源經濟諮詢有限公司 (Jinan Wansheng Yuan Economic Consulting Company Limited) ("Jinan Wansheng"), an indirect wholly-owned subsidiary of the Company, entered into a management agreement (the "2010 Management Agreement") with GOME Retail, pursuant to which Jinan Wansheng will provide and will procure other members of the Group to provide management services to the Non-listed GOME Group for a period of three years from 1 January 2010 to 31 December 2012. The terms of the 2010 Management Agreement are the same as those in the 2006 Management Agreement.

On 17 December 2012, Jinan Wansheng, Tianjin Consultancy, 昆明勤安商業管理諮詢有限公司 (Kunming Qinan Commercial Consultancy Company Limited) ("Kunming Qinan") and 蘭州恒達商業管理諮詢有限公司 (Lanzhou Hengda Commercial Consultancy Company Limited) ("Lanzhou Hengda"), all being indirect wholly-owned subsidiaries of the Company, entered into an agreement (the "2012 Management Agreement") with GOME Retail, pursuant to which Jinan Wansheng, Tianjin Consultancy, Kunming Qinan and Lanzhou Hengda agreed to provide and to procure other members of the Group to provide management services to the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015 subject to a cap on the management fee of RMB100 million for each financial year. During the year, the total transaction amount under the 2012 Management Agreement was approximately RMB100 million.

(6) The Lease Agreements

On 18 March 2011, GOME Appliance and 北京恒信商貿有限公司 (Beijing Hengxin Trading Co., Ltd) ("Beijing Hengxin") both are wholly-owned subsidiaries of the Company, entered into a number of lease agreements (the "Pengrun Lease Agreements") with respect to the Group's use of certain properties in the Pengrun Building as its office in Beijing with 北京鵬潤地產控股有限公司 (Beijing Pengrun Property Co., Ltd) ("Beijing Pengrun Property"), a company owned by Mr. Wong and his associates and thus, a connected person of the Company. Pursuant to the Pengrun Lease Agreements, GOME Appliance will lease from Beijing Pengrun Property various office units located at Pengrun Building for a term of two years from 1 January 2011 to 31 December 2012.

In addition, owing to the operational requirements of the Group, on 6 January 2012 and 25 May 2012, GOME Appliance has entered into new lease agreements (the "New Pengrun Lease Agreements") with Beijing Pengrun Property for the renting of additional properties at the Pengrun Building for a term of one year from 1 January 2012 to 31 December 2012 and from 15 March 2012 to 31 December 2012, respectively.

On 18 March 2011, GOME Appliance entered into a lease agreement (the "Xibahe Lease Agreement") with Beijing GOME, pursuant to which GOME Appliance will lease from Beijing GOME the property located at No. A7, North Lane, Xibahe, Chaoyang District, Beijing ("the Xibahe Property") for use by GOME Appliance as a retail store for a term of 1 year from 1 January 2011 to 31 December 2011.

The Xibahe Lease Agreement has expired on 31 December 2011. To enable the Group to continue to use the Xibahe Property, on 6 January 2012, GOME Appliance and Beijing GOME have entered into the 2012 Xibahe Lease Agreement (the "2012 Xibahe Lease Agreement"). Pursuant to the 2012 Xibahe Lease Agreement, GOME Appliance will continue to lease from Beijing GOME the Xibahe Property for use by GOME Appliance as a retail store for a term of 1 year from 1 January 2012 to 31 December 2012.

On 17 December 2012, the Group has entered into new lease agreements (the "2013 Pengrun Lease Agreements") and (the "2013 Xibahe Lease Agreement") to renew the leases for the said properties.

Pursuant to the terms of the 2013 Pengrun Lease Agreements, GOME Appliance will lease from Beijing Pengrun Property certain office units in the Pengrun Building for use by the Group as its office in Beijing. The 2013 Pengrun Lease Agreements have terms of 1 year from 1 January 2013 to 31 December 2013. The annual rent (including management fee) payable by the Group for the one year ending 31 December 2013 would be a sum of approximately RMB78.63 million, which the Group will not exceed for the period covered by the agreement. During the year, the total rental expense was approximately RMB74.96 million.

Pursuant to the terms of the 2013 Xibahe Lease Agreement, GOME Appliance will lease the Xibahe Property from Beijing GOME for use as a retail store of the Group for a term of 1 year from 1 January 2013 to 31 December 2013. The rent payable by the Group would be approximately RMB14.45 million for the year ending 31 December 2013, which the Group will not exceed for the period covered by the agreement. During the year, the total rental expense was approximately RMB14.45 million.

As those leases are due to expire on 31 December 2013, the Group has entered into new lease agreements (the "2014 Pengrun Lease Agreements") and (the "2014 Xibahe Lease Agreement") to renew the leases for the said properties on 6 December 2013.

Pursuant to the terms of the 2014 Pengrun Lease Agreements, GOME Appliance will lease from Beijing Pengrun Property certain office units in the Pengrun Building for use by the Group as its office in Beijing. The 2014 Pengrun Lease Agreements have a term of 1 year from 1 January 2014 to 31 December 2014. The annual rent (including management fee) payable by the Group for the year ending 31 December 2014 would be a sum of approximately RMB74.44 million.

Pursuant to the terms of the 2014 Xibahe Lease Agreement, GOME Appliance will lease the Xibahe Property from Beijing GOME for use as a retail store of the Group for a term of 1 year from 1 January 2014 to 31 December 2014. The rent payable by the Group would be approximately RMB15.77 million for the year ending 31 December 2014.

All independent non-executive Directors have reviewed the continuing connected transactions as set out in paragraphs (1) to (6) above (collectively, the "Continuing Connected Transactions") and confirmed that they were entered into:

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

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

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

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

1. have been approved by the Board;

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

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

4. have not exceed the respective caps stated in the relevant announcements.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2013, the Group employed a total of 41,177 employees. The Group recruits and promotes individuals based on merit and their development potentials. The remuneration package inclusive of bonus and share option scheme offered to all employees including Directors is determined with reference to their performance and the prevailing salary levels in the market.

PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 9 to the financial statements on page 135.

COMMITMENTS

Details of commitments are set out in note 33 to the financial statements on pages 176 to 177.

INDEPENDENCE CONFIRMATION

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 67 to 80.

EXCHANGE RATES EXPOSURE

Details of the exchange rates exposure are set out in note 39 to the financial statements on page 193.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2013.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save for the share options as set out above and in note 30 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2013.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

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

During the year ended 31 December 2013, Tianjin Consultancy had made advances in the aggregate amount of RMB3.6 billion (as at 31 December 2012: RMB3.6 billion) (the "Advance") to 北京戰聖投資有限公司 (Beijing Zhansheng Investment Co., Ltd.) ("Beijing Zhansheng"), a third party independent of each of the Company and its connected persons (within the meaning of the Listing Rules), through 興業銀行股份有限公司北京分行 (Beijing Branch of Industrial Bank Co., Ltd) (the "Lending Bank") pursuant to the loan agreement entered into between Tianjin Consultancy, Beijing Zhansheng and the Lending Bank on 14 December 2007. The Advance was used by Beijing Zhansheng for the sole purpose of acquisition of the entire registered capital of 北京市大中家用電器連鎖銷售有限公司 (Beijing Dazhong Home Appliances Retail Co., Ltd.). The Advance is a secured loan. The term of the Advance was initially from 14 December 2007 to 13 December 2008 and the interest rate was 6.56% per annum. It has been subsequently renewed and extended in 2008 and in 2009 was extended for a period of two years from 15 December 2009 to 14 December 2011 at the interest rate of 4.86% per annum. It has been further extended for a period from 15 December 2011 to 15 December 2012 during 2011 and the interest rate was 5.90% per annum. The Advance was further extended in December 2012 from 5 December 2012 to 4 December 2015 and the interest was 5.40%. As at 31 December 2013, the Advance was RMB3.6 billion and the Advance represented approximately 9.15% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in note 40 to the financial statements on page 199.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years is set out on page 3.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board

Zhang Da Zhong
Chairman

Hong Kong, 20 March 2014

RISK FACTORS

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

RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

Economic conditions

We are a lending chain-store retailer of home appliances and consumer electronic products in China and our turnover is particularly sensitive to changes in economic conditions and PRC consumer confidence. Consumer confidence is affected by, among other factors, general business conditions, stock market and real estate market conditions, as well as by current and expected future global or regional macroeconomic conditions. We cannot assure you that consumer demand will not be impacted by the continuing weakness in the global economic condition or any future deterioration of economic condition in the PRC.

Credit terms

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

Terms of the supply agreements

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

Reliance on key management personnel

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

Location of outlets and lease renewal

One of the key factors in the success of the Group is its ability to establish its retail outlets at suitable and convenient locations where there is high pedestrian flow and good accessibility (whether by public transportation or other means). During the year ended 31 December 2013, most of the retail outlets leased by the Group were with a term of 5 to 10 years. Given the scarcity of retail premises at these suitable and convenient locations, there is no assurance that the Group will be able to find premises suitable for its retail operations or to lease them on commercially acceptable terms. In the event that there is any material difficulty in finding retail premises at suitable locations or securing the leasing of such premises on commercially acceptable terms, the Group's expansion plans and business performance may be adversely affected.

Intensified competition between traditional retailers and online retailers

The competition of the retail business in China is severe. The Group faces pressure arising from the competition with traditional store retailers, online retailers, suppliers and other retailers. Such pressure may affect the income and profitability of the Group. The competition between the Group and local, regional, domestic or even international chain retailers is not only limited to business, but also extends to the areas of consumers, talents, site of stores, products and other important aspects. At the same time, the suppliers of the Group also supply their products and services to consumers directly. The competitors of the Group are similar to us in terms of their market shares in the retail markets of traditional home appliances and consumer electronic products and their financial resources, therefore, the Group may have to further lower the retail prices in order to increase our market share and attract more consumers. The adjustment of retail price may affect the operation results of the Group.

The operation of the ERP information management system

The inventory management, delivery and other operating segments of the Group are largely dependent on the ERP information management system of the Group. If the system of the Group does not operate smoothly or encounters interruption during operation, the business and operation of the Group may be affected.

ERP information management system is the basis for the efficient operation of the Group. To a large extent, the Group relies on such system to manage the processes such as the recording and execution of orders, pricing and monitoring inventory level and restocking. If the ERP information management system does not reach the expected results during operation or fails to meet the requirements arising from the continuous development of business, the business of the Group may be affected, which in turn may dampen our sales, increase our expenses and costs and lead to under-stock or over-stock and have an adverse effect on the Group's business and operation results.

RISK
FACTORS

RISKS ASSOCIATED WITH THE PRC

Changing economic, political and social conditions or government policies in the PRC

While the PRC economy has experienced a significant growth in the past 20 years, such growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy but may also have a negative effect on the Group's operations. For example, the Group's financial condition and operating results may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to it.

Although in recent years the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing top-down policies. It also exercises significant control over PRC economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. There is no assurance that future changes in the PRC's political, economic and social conditions, laws, regulations and policies will not have a material adverse effect on the Group's current or future business, results of operations or financial condition.

Changes in foreign exchange regulations and fluctuation of RMB

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to upholding good corporate governance practices. For the year ended 31 December 2013, the Company was in compliance with the code provisions as set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors of the Company. Having made due and careful enquiry, the Company confirms that all Directors have complied with the Model Code during the year ended 31 December 2013.

BOARD OF DIRECTORS

Board composition

During the year ended 31 December 2013 and up to the date of issue of this Annual Report, the Board comprises the following executive Directors, non-executive Directors and independent non-executive Directors:

Mr. Zhang Da Zhong	*(Non-executive Director and Chairman)*
Mr. Ng Kin Wah	*(Executive Director) (passed away on 13 October 2013)*
Mr. Zou Xiao Chun	*(Executive Director)*
Mr. Zhu Jia	*(Non-executive Director)*
Ms. Wang Li Hong	*(Non-executive Director)*
Mr. Cheung Leong	*(Non-executive Director)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director)*
Ms. Liu Hong Yu	*(Independent non-executive Director) (appointed with effect from 10 June 2013)*

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

Mr. Zou Xiao Chun, being an executive Director was re-elected at the year 2013 Annual General Meeting of the Company with a specific term of 3 years from 10 June 2013. Each of Mr. Zhang Da Zhong, being a non-executive Director and Mr. Lee Kong Wai, Conway, Mr. Ng Wai Hung and Ms. Liu Hong Yu, being an independent non-executive Director, was appointed or re-elected at the year 2013 Annual General Meeting of the Company with a specific term of 3 years from 10 June 2013. Each of Mr. Zhu Jia, Ms. Wang Li Hong and Mr. Cheung Leong, being a non-executive Director, was appointed or re-elected at the Year 2012 Annual General Meeting of the Company with a specific term of 3 years from 28 June 2012. Each of Mr. Sze Tsai Ping, Michael and Mr. Chan Yuk Sang, being an independent non-executive Director, was re-elected at the Year 2012 Annual General Meeting of the Company with a specific term of 3 years from 28 June 2012. The Board has confirmed with each of the independent non-executive Directors as to his/her independence with reference to the factors as set out in Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of the independent non-executive Directors.

Roles and functions

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

Board meetings and general meetings

The Board meets regularly at least once a quarter and additional meetings are convened as and when the Board considers necessary. In 2013, 7 Board meetings (including 4 regular Board meetings) and 2 general meetings of the Company were held. Details of the Directors' attendance records during the year are as follows:

Directors	Special General Meeting held on 2 April 2013 Attendance	Annual General Meeting held on 10 June 2013 Attendance	Board Meeting Attendance
Mr. Zhang Da Zhong	1/1	1/1	7/7 (4/4)*
Mr. Ng Kin Wah**	0/1	1/1	5/7 (3/4)*
Mr. Zou Xiao Chun	1/1	1/1	7/7 (4/4)*
Mr. Zhu Jia	0/1	1/1	6/7 (3/4)*
Ms. Wang Li Hong	1/1	1/1	7/7 (4/4)*
Mr. Cheung Leong	1/1	1/1	7/7 (4/4)*
Mr. Sze Tsai Ping, Michael	1/1	1/1	6/7 (3/4)*
Mr. Chan Yuk Sang	1/1	1/1	7/7 (4/4)*
Mr. Lee Kong Wai, Conway	1/1	1/1	7/7 (4/4)*
Mr. Ng Wai Hung	1/1	1/1	6/7 (3/4)*
Ms. Liu Hong Yu***	0/1	0/1	2/7 (1/4)*

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

** *As disclosed in the announcement of the Company dated 15 October 2013, Mr. Ng Kin Wah passed away due to illness. Therefore, he did not attend all of the 2 Board meetings held subsequently.*

*** *Ms. Liu Hong Yu was appointed as an independent non-executive Director with effect from the conclusion of the annual general meeting of the Company held on 10 June 2013 and therefore did not attend any general meeting of the Company and all of the 4 Board meetings held prior to her appointment.*

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly. Code provision A.1.3 of the CG Code requires that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. Notices of all 4 regular Board meetings during the year under review were sent to all Directors in compliance with the said requirement. Agenda accompanying Board papers relating to all 4 regular Board meetings during the year under review were sent to all Directors at least 3 days respectively prior to such meeting in compliance with the CG Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer of a listed company should be separate and should not be performed by the same individual. The Company was in compliance with code provision A.2.1 of the CG Code during the review period. Mr. Zhang Da Zhong served as the chairman of the Company, primarily responsible for providing leadership to the Board. During the year under review, Mr. Wang Jun Zhou was the president of the Company, undertaking the duties of the chief executive officer of the Company to oversee the business of the Group and executing decisions of the Board.

Directors' Trainings

As an internal routine, during the year under review, the Company provided the Directors, the management and other relevant departments of the Company with the following trainings to keep them abreast of their responsibilities and roles under the relevant laws and regulations as well as various internal control systems for compliance purposes:

1. annual in-house training conducted by external counsel in early March 2013 on continuing obligation to disclose inside information as well as the disclosure on environmental and social matters for 2 hours (the "Annual In-house Training").

2. Subject to participation quotas available to the Company, the Company from time to time invited the Directors, the management and the relevant staffs of the Company to attend seminars given by external professional firms and regulators.

As an internal routine, during the year under review, the Company also provided each new Director with a comprehensive training on duties and responsibilities of directors of Hong Kong listed companies conducted by external counsel shortly after the appointment (the "Upfront Directors' Training") and the various updated internal guidelines of the Company for compliance purposes.

Details of trainings received by each Director during the year under review are set out below:

Names of Directors	Details of trainings
Mr. Zhang Da Zhong	– Attended the Annual In-house Training.
Mr. Ng Kin Wah	– Attended the Annual In-house Training.
Mr. Zou Xiao Chun	– Attended the Annual In-house Training.
Mr. Zhu Jia	– Attended the Annual In-house Training.
Ms. Wang Li Hong	– Attended the Annual In-house Training.
Mr. Cheung Leong	– Attended the Annual In-house Training.
Mr. Sze Tsai Ping, Michael	– Attended the Annual In-house Training.
	– Attended workshop on risk management organized by Deloitte (an external auditors firm) for 1.5 hours in March 2013.
	– Attended the independent non-executive directors forum organized by KPMG (an external auditors firm) for 2 hours in September 2013.
	– Attended seminar on corporate governance given by The Hong Kong Institute of Directors for 1 hour in October 2013.
	– Attended seminar on the challenges and discharging responsibilities as independent non-executive directors given by Ernst & Young (an external auditors firm) for 3 hours in November 2013.
	– Attended the independent non-executive directors forum organized by KPMG (an external auditors firm) for 2 hours in December 2013.
	– Attended the training on rule changes to complement new regulations on sponsor organized by Baron Group for 10 hours in December 2013.
Mr. Chan Yuk Sang	– Attended the Annual In-house Training.
	– Attended seminar on learning and practicing on bond offerings given by Baker & McKenzie (an international law firm) for 2 hours in January 2013.
	– Attended workshop on visions and trends for 2013, organized by Deloitte (an external auditors firm) for 1.5 hours in January 2013.
	– Attended seminar on crisis management given by Freshfields Bruckhaus Deringer (an international law firm) for 1 hour in May 2013.
	– Attended workshop on crisis management and the role of the independent non-executive directors, organized by Deloitte (an external auditors firm) for 1 hour in September 2013.
	– Attended seminar on the challenges and discharging responsibilities as independent non-executive directors given by Ernst & Young (an external auditors firm) for 3 hours in November 2013.

Names of Directors	Details of trainings
Mr. Lee Kong Wai, Conway	– Attended the Annual In-house Training. – Attended the routine training for directors organized by Modern Dairy Holdings Limited for 1 hour in February 2013. – Attended seminar on crisis management organized by Freshfields Bruckhaus Deringer (an international law firm) for 1 hour in May 2013. – Attended the training on disclosure of inside information organized by CITIC Securities Company Limited for 2 hours in May 2013. – Attended the training on guidance on disclosure of inside information organized by Kirkland & Ellis (an international law firm) for 1 hour in June 2013. – Attended seminar on continuing obligations of a Hong Kong listed company and its directors organized by Freshfields Bruckhaus Deringer (an international law firm) for 1 hour in July 2013. – Attended the training on continuing obligations of an issuer and its directors organized Sullivan & Cromwell (an international law firm) for 1 hour in December 2013.
Mr. Ng Wai Hung	– Attended the Annual In-house Training.
Ms. Liu Hong Yu	– Attended the upfront Directors' Training organised by Sidley Austin, the Company's legal advisor for 2.5 hours in early July 2013, shortly after her appointment on 10 June 2013.

BOARD COMMITTEES

During the year under review, the Board had the following committees:

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

Remuneration Committee

The Remuneration Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph B.1.2 of the CG Code. During the year ended 31 December 2013, a majority of the members of the Remuneration Committee is independent non-executive Directors and the Remuneration Committee comprised the following members:

Mr. Ng Wai Hung	*(Independent non-executive Director and the chairman of the Remuneration Committee)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director)*
Mr. Zhu Jia	*(Non-executive Director)*

The Remuneration Committee, among other matters, was primarily responsible for the following duties during the year under review:

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

2. to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and to make recommendations to the Board on the remuneration of non-executive Directors and independent non-executive Directors, having regard to salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

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

The Remuneration Committee shall meet at least once each year. During the year ended 31 December 2013, the Remuneration Committee, among other matters, approved the terms and remunerations of the executive Director for re-election, and recommended the terms and remunerations of the non-executive Directors and independent non-executive Directors for re-election and election as well as the annual vesting of the granted share options under the Share Option Scheme.

During the year under review, the Remuneration Committee had held 2 meetings. Attendance records of the members of the Remuneration Committee of such meetings are as follows:

Committee members	Attendance
Mr. Ng Wai Hung	2/2
Mr. Chan Yuk Sang	2/2
Mr. Sze Tsai Ping, Michael	2/2
Mr. Lee Kong Wai, Conway	2/2
Mr. Zhu Jia	1/2

Nomination Committee

The Nomination Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph A.5.2 of the CG Code. During the year ended 31 December 2013, a majority of the members of the Nomination Committee is independent non-executive Directors and the Nomination Committee comprised the following members:

Mr. Chan Yuk Sang	*(Independent non-executive Director and the chairman of the Nomination Committee)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director)*
Mr. Zou Xiao Chun	*(Executive Director)*
Mr. Zhu Jia	*(Non-executive Director)*

The Nomination Committee, among other matters, was primarily responsible for the following duties during the year under review:

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

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

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

4. to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors and, in particular, the chairman of the Board and the President of the Company.

The Nomination Committee shall meet at least once each year.

During the year under review, the Nomination Committee, among other matters, assessed the continuous independence of the independent non-executive Directors, reviewed the structure, size and composition of the Board and considered and recommended election and re-election of Directors, approved the Board diversity policy.

During the year under review, 2 meetings of Nomination Committee were held. Attendance records of the members of the Nomination Committee of such meetings are as follows:

Committee members	Attendance
Mr. Chan Yuk Sang	2/2
Mr. Sze Tsai Ping, Michael	2/2
Mr. Lee Kong Wai, Conway	2/2
Mr. Ng Wai Hung	1/2
Mr. Zou Xiao Chun	1/2
Mr. Zhu Jia	2/2

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

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

In May 2013, the Board has adopted a Board Diversity Policy (the "Policy"):

1. The Policy aims to set out the approach to achieve diversity in the Board.

2. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance.

3. The Company recognizes and embraces the benefits of having a diverse Board, and sees diversity at the Board level as an essential element in maintaining a competitive advantage. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The benefits of diversity continue to influence succession planning and is a key selection criteria for the Board.

4. The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Independent Committee

The Independent Committee was established by the Board on 21 August 2009. During the year ended 31 December 2013, the Independent Committee comprised the following members:

Mr. Zhang Da Zhong	*(Non-executive Director and the chairman of the Independent Committee)*
Mr. Zhu Jia	*(Non-executive Director)*
Ms. Wang Li Hong	*(Non-executive Director)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director)*

The Independent Committee, among other matters, was primarily responsible for the following duties during the year under review:

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

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

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

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

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

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

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

During the year under review, the Independent Committee, among other matters, considered and approved new continuing connected transactions and renewal of a number of existing continuing connected transactions of the Group.

During the year under review, 1 meeting of Independent Committee was held. Attendance records of the members of the Independent Committee of such meeting are as follows:

Committee members	Attendance
Mr. Zhang Da Zhong	1/1
Mr. Zhu Jia	1/1
Ms. Wang Li Hong	1/1
Mr. Sze Tsai Ping, Michael	1/1
Mr. Chan Yuk Sang	1/1
Mr. Lee Kong Wai, Conway	1/1
Mr. Ng Wai Hung	1/1

Accountability and Audit

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

Audit Committee

The Audit Committee was established in 2004. During the year ended 31 December 2013, the Audit Committee comprised the following members:

Mr. Lee Kong Wai, Conway	*(Independent non-executive Director and the chairman of the Audit Committee)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director)*

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

The Audit Committee is primarily responsible for, among others, the following duties during the year under review:

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

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

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

4. to monitor integrity of the financial statements, annual reports and interim reports of the Company and to review significant financial reporting judgments contained in them;

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

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

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

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

The Audit Committee shall meet at least twice each year. In 2013, 5 Audit Committee meetings were held for, among other matters, considering the annual results of the Group for the financial year ended 31 December 2012, the quarterly results of the Group for the three months ended 31 March 2013, the interim results of the Group for the six months ended 30 June 2013 and the quarterly results of the Group for the nine months ended 30 September 2013, discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and the scope of work in relation to the annual audit and reviewing the continuing connected transactions of the Group.

Attendance records of the Audit Committee members during the year are as follows:

Committee members	Attendance
Mr. Lee Kong Wai, Conway	5/5
Mr. Sze Tsai Ping, Michael	4/5
Mr. Chan Yuk Sang	5/5
Mr. Ng Wai Hung	4/5

The amount of audit fees payable to Ernst & Young, the auditors of the Company, for the year ended 31 December 2013 was RMB7,437,000 (2012: RMB6,387,000). The amount of remuneration payable to the auditors of the Company relating to non-audit services for the year ended 31 December 2013 was RMB611,000 (2012: RMB1,014,000). The Audit Committee is of the view that the auditors' independence was not affected by the provision of such non-audit related services to the Group.

Pursuant to the Bye-laws of the Company, the terms of appointment of the auditors of the Company will expire at the end of the AGM to be held in 2014. The Audit Committee has recommended to the Board that Ernst & Young be nominated for re-appointment as the auditors of the Company at the AGM to be held in 2014.

INTERNAL CONTROLS

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

The Board had reviewed the effectiveness of the Group's internal control systems for the year 2013 and is satisfied that, based on information furnished to it and on its own observations, the present internal control systems of the Group are satisfactory. In particular, in 2012, the Group had implemented a new, upgraded enterprise resources planning system (i.e. the ERP system) nationwide, which helped enhance the inventory control system, operational control system and the financial reporting system of the Group.

COMPANY SECRETARY

During the year under review, the Company Secretary was Mr. Szeto King Pui, Albert who was not an employee of the Company and was a partner of an external law firm. The primary corporate contact person at the Company for the Company Secretary is Mr. Cheng Yik, Eric, the Financial Controller of the Company. The Company Secretary had complied with Rule 3.29 of the Listing Rules during the year under review.

COMMUNICATION WITH SHAREHOLDERS

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

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

SHAREHOLDERS' RIGHTS

Right to convene a special general meeting

Pursuant to section 74 of the Bermuda Companies Act 1981 which the Company is subject to, shareholder(s) of the Company holding not less than 10% of the paid up capital of the Company carrying voting right at the general meetings of the Company, are entitled to make a requisition to the Board to convene a special general meeting of the Company ("SGM"), and the Board shall forthwith proceed to convene an SGM upon such requisition.

The SGM requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists.

If the Board does not within twenty one days from the date of the deposit of the requisition proceed duly to convene an SGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of such requisitionists, may themselves convene an SGM, but any SGM so convened shall not be held after the expiration of three months from the date of the deposit of such requisition.

The SGM convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which the SGMs are to be convened by the Board. Any reasonable expenses incurred by the requisitionists by reason of the failure of the Board duly to convene an SGM shall be repaid to the requisitionists by the Company.

Right to propose resolutions at general meetings

Pursuant to sections 79 and 80 of the Bermuda Companies Act 1981 which the Company is subject to, shareholder(s) holding not less than 5% of the total voting rights of the Company or not less than 100 shareholders, are entitled to make a requisition to the Company to give shareholders notice of any resolution which may properly be moved and is intended to be moved at the next annual general meeting of the Company, provided that:

(1) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company, not less than six weeks before the next annual general meeting; and

(2) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

Right to nominate directors for election at general meetings

Pursuant to Bye-law 103 of the Company's Bye-laws, whenever the appointment/election of director(s) is considered at a general meeting by any of the above requisitions or otherwise, if a shareholder who is qualified to attend and vote at the general meeting convened to deal with appointment/election of director(s) wishes to propose a person who is not a retiring director at such general meeting for appointment or election as a director, such shareholder shall deposit or lodge a written notice of the intention to propose a person for election or appointment as a director, together with the written notice by the person nominated of his willingness to be elected or appointed as a director, at the head office or registered office of the Company at least seven days prior to the date of such general meeting, provided that such written notices shall not be lodged earlier than the day after the dispatch of the notice of the general meeting appointed for such election.

Disclaimers

Contents of this section headed "Shareholders' Rights" are for reference and disclosure compliance purposes only, do not represent and should not be regarded as legal or other professional advice to the shareholders from the Company. Shareholders should seek their independent legal or other professional advice as to their rights as shareholders of the Company. The Company disclaims all liabilities and losses incurred by its shareholders in reliance on any contents of this section headed "Shareholders' Rights".

CONSTITUTIONAL DOCUMENTS

During 2013, there was no significant change to the Company's Bye-laws or Memorandum of Association.

PROCEDURES FOR PUTTING ENQUIRIES TO THE BOARD

Shareholders may put enquiries to the Board in writing by addressing the same to the Board by post or delivery to Unit 6101, 61st Floor, The Center, 99 Queen's Road Central, Hong Kong or email to info@gome.com.hk.

INVESTOR RELATIONS

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

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

	BEIJING	HONG KONG
Telephone number:	+86 10 5928 8815	+852 2122 9133
By post:	18/F, Block B, Eagle Plaza No. 26 Xiaoyun Road Chao Yang District Beijing, China	Unit 6101, 61st Floor The Center 99 Queen's Road Central Hong Kong, China
Attention:	Investor Relations Department	Corporate Finance & Development Department
By email:	ir@gome.com.cn	info@gome.com.hk

INDEPENDENT AUDITORS' REPORT

22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

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

We have audited the consolidated financial statements of GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 83 to 199, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
20 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
REVENUE	*5*	**56,400,662**	51,097,100
Cost of sales	*6*	**(47,898,540)**	(44,276,489)
Gross profit		**8,502,122**	6,820,611
Other income and gains	*5*	**1,851,971**	1,692,140
Selling and distribution expenses		**(7,152,640)**	(7,381,270)
Administrative expenses		**(1,564,270)**	(1,490,108)
Other expenses		**(622,664)**	(453,173)
Profit/(loss) from operating activities		**1,014,519**	(811,800)
Finance costs	*7*	**(60,569)**	(227,708)
Finance income	*7*	**240,725**	246,054
Share of profit of an associate		**–**	428
Gains on redemption of convertible bonds		**–**	34,011
PROFIT/(LOSS) BEFORE TAX	*6*	**1,194,675**	(759,015)
Income tax expense	*10*	**(517,230)**	(182,860)
PROFIT/(LOSS) FOR THE YEAR		**677,445**	(941,875)
Attributable to:			
Owners of the parent company	*31b(i)*	**892,475**	(728,498)
Non-controlling interests		**(215,030)**	(213,377)
		677,445	(941,875)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY	*11*		
– Basic		**RMB5.3 fen**	(RMB4.3 fen)
– Diluted		**RMB5.3 fen**	(RMB4.4 fen)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
PROFIT/(LOSS) FOR THE YEAR		**677,445**	(941,875)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of other investments	*16*	**10,800**	(21,600)
Exchange differences on translation of foreign operations		**60,487**	9,746
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**71,287**	(11,854)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**71,287**	(11,854)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**748,732**	(953,729)
Attributable to:			
Owners of the parent company		**963,762**	(740,352)
Non-controlling interests	*19*	**(215,030)**	(213,377)
		748,732	(953,729)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	31 December 2013 RMB'000	31 December 2012 RMB'000 (Restated)	1 January 2012 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property and equipment	*12*	**4,094,770**	4,379,447	3,932,476
Investment properties	*13*	**948,805**	918,472	915,226
Goodwill	*14*	**7,145,117**	7,160,907	7,160,907
Other intangible assets	*15*	**289,239**	312,677	336,115
Investment in an associate		**–**	–	39,973
Other investments	*16*	**135,000**	124,200	145,800
Lease prepayments and deposits	*17*	**314,977**	356,618	561,883
Deferred tax assets	*18*	**50,588**	136,852	66,663
Total non-current assets		**12,978,496**	13,389,173	13,159,043
CURRENT ASSETS				
Inventories	*20*	**8,220,734**	7,779,164	10,168,905
Trade and bills receivables	*21*	**245,492**	203,070	291,750
Prepayments, deposits and other receivables	*22*	**2,333,481**	2,842,781	3,788,976
Due from related companies	*23*	**123,174**	190,942	169,390
Pledged deposits	*24*	**6,406,795**	6,240,244	4,753,589
Cash and cash equivalents	*24*	**9,015,813**	7,067,349	6,413,839
Total current assets		**26,345,489**	24,323,550	25,586,449
CURRENT LIABILITIES				
Interest-bearing bank loans	*25*	**2,683,171**	2,434,374	–
Trade and bills payables	*26*	**18,077,489**	18,016,746	18,330,524
Customers' deposits, other payables and accruals	*27*	**2,046,809**	1,722,010	1,628,698
Due to related companies	*23*	**464,142**	234,695	–
Convertible bonds		**–**	–	2,111,610
Tax payable		**562,620**	459,760	552,188
Total current liabilities		**23,834,231**	22,867,585	22,623,020

CONSOLIDATED STATEMENT
OF FINANCIAL POSITION (CONTINUED)

31 December 2013

	Notes	**31 December 2013 RMB'000**	31 December 2012 RMB'000 (Restated)	1 January 2012 RMB'000 (Restated)
NET CURRENT ASSETS		**2,511,258**	1,455,965	2,963,429
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,489,754**	14,845,138	16,122,472
NON-CURRENT LIABILITIES				
Deferred tax liabilities	*18*	**172,296**	170,603	157,025
Derivative liability related to a cross currency swap	*28*	**–**	4,953	–
Total non-current liabilities		**172,296**	175,556	157,025
Net assets		**15,317,458**	14,669,582	15,965,447
EQUITY				
Equity attributable to owners of the parent company				
Issued capital	*29*	**421,551**	421,551	421,521
Reserves	*31(a)*	**15,064,311**	14,642,797	15,574,395
Proposed dividends	*32*	**441,392**	–	–
		15,927,254	15,064,348	15,995,916
Non-controlling interests	*19*	**(609,796)**	(394,766)	(30,469)
Total equity		**15,317,458**	14,669,582	15,965,447

Zhang Da Zhong
Director

Zou Xiao Chun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		Attributable to owners of the parent company													
	Notes	Issued capital RMB'000 Note 29	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve# RMB'000	Other investment revaluation reserve RMB'000	Statutory reserves RMB'000 Note 31(a)	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Proposed dividends RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2013															
As previously reported		421,551	9,461,244	657	(851,561)	164,716	117,468	30,240	1,378,436	(224,346)	4,650,674	-	15,149,079	(394,766)	14,754,313
Prior year adjustments		-	-	-	-	-	-	-	90,262	-	(174,993)	-	(84,731)	-	(84,731)
As restated		421,551	9,461,244	657	(851,561)	164,716	117,468	30,240	1,468,698	(224,346)	4,475,681	-	15, 064,348	(394,766)	14,669,582
Profit for the year		-	-	-	-	-	-	-	-	-	892,475	-	892,475	(215,030)	677,445
Other comprehensive income for the year:															
Changes in fair value of other investments	16	-	-	-	-	-	-	10,800	-	-	-	-	10,800	-	10,800
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	60,487	-	-	60,487	-	60,487
Total comprehensive income for the year		-	-	-	-	-	-	10,800	-	60,487	892,475	-	963,762	(215,030)	748,732
Equity-settled share option arrangements	30	-	-	-	-	(6,763)	-	-	-	-	-	-	(6,763)	-	(6,763)
Transfer to statutory reserves		-	-	-	-	-	-	-	28,145	-	(28,145)	-	-	-	-
2013 interim dividends paid	32	-	-	-	-	-	-	-	-	-	(94,093)	-	(94,093)	-	(94,093)
Proposed dividends	32	-	-	-	-	-	-	-	-	-	(441,392)	441,392	-	-	-
Wind-up of subsidiaries		-	-	-	-	-	-	-	(54,871)	-	54,871	-	-	-	-
At 31 December 2013		421,551	9,461,244*	657*	(851,561)*	157,953*	117,468*	41,040*	1,441,972*	(163,859)*	4,859,397*	441,392	15,927,254	(609,796)	15,317,458

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2013

	Notes	Attributable to owners of the parent company												
		Issued capital RMB'000 Note 29	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve# RMB'000	Other investment revaluation reserve RMB'000	Statutory reserves RMB'000 Note 31(a)	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2012														
As previously reported		421,521	9,457,964	657	(657,232)	164,913	117,468	51,840	1,341,871	(234,092)	5,283,853	15,948,763	(30,469)	15,918,294
Prior year adjustments		-	-	-	-	-	-	-	82,303	-	(35,150)	47,153	-	47,153
As restated		421,521	9,457,964	657	(657,232)	164,913	117,468	51,840	1,424,174	(234,092)	5,248,703	15,995,916	(30,469)	15,965,447
Loss for the year (as restated)		-	-	-	-	-	-	-	-	-	(728,498)	(728,498)	(213,377)	(941,875)
Changes in fair value of other investments	16	-	-	-	-	-	-	(21,600)	-	-	-	(21,600)	-	(21,600)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	9,746	-	9,746	-	9,746
Total comprehensive loss for the year		-	-	-	-	-	-	(21,600)	-	9,746	(728,498)	(740,352)	(213,377)	(953,729)
Exercise of share options	30	30	3,280	-	-	(997)	-	-	-	-	-	2,313	-	2,313
Equity-settled share option arrangements	30	-	-	-	-	800	-	-	-	-	-	800	-	800
Transfer to statutory reserve		-	-	-	-	-	-	-	44,524	-	(44,524)	-	-	-
Redemption of convertible bonds		-	-	-	(406,582)	-	-	-	-	-	-	(406,582)	-	(406,582)
Deemed disposal of non-controlling interests in subsidiaries		-	-	-	288,393	-	-	-	-	-	-	288,393	(215,060)	73,333
Acquisition of non-controlling interests		-	-	-	(76,140)	-	-	-	-	-	-	(76,140)	64,140	(12,000)
At 31 December 2012, as restated		421,551	9,461,244*	657*	(851,561)*	164,716*	117,468*	30,240*	1,468,698*	(224,346)*	4,475,681*	15,064,348	(394,766)	14,669,582

\# The asset revaluation reserve arose from changes in use from owner-occupied properties to investment properties carried at fair value.

* These reserve accounts comprise the consolidated reserves of RMB15,064,311,000 (2012: RMB14,642,797,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**1,194,675**	(759,015)
Adjustments for:			
Finance income	*7*	**(240,725)**	(246,054)
Finance costs	*7*	**60,569**	227,708
Fair value gain on revaluation of equity interest in an associate upon step acquisition	*5*	**–**	(13,565)
Gain on bargain purchase of an associate upon step acquisition	*35*	**–**	(31,139)
Share of profit of an associate		**–**	(428)
(Gain on settlement of)/ fair value loss on a cross currency swap	*28*	**(11,002)**	4,953
Gains on redemption of convertible bonds	*6*	**–**	(34,011)
Fair value gain on investment properties	*6*	**(30,333)**	(29,739)
Loss on disposal of items of property and equipment	*6*	**53,785**	6,683
Impairment of goodwill	*6*	**15,790**	–
Depreciation	*6*	**552,703**	470,544
Amortisation of intangible assets	*6*	**23,438**	23,438
Equity-settled share option expense	*30*	**(6,763)**	800
		1,612,137	(379,825)
Decrease in lease prepayments and deposits		**41,641**	205,265
(Increase)/decrease in inventories		**(441,570)**	2,389,741
(Increase)/decrease in trade and bills receivables		**(42,422)**	88,680
Decrease in prepayments, deposits and other receivables		**502,100**	1,010,681
Decrease/(increase) in amounts due from related companies		**67,768**	(21,552)
(Increase)/decrease in pledged deposits		**(202,966)**	981,352
Increase/(decrease) in trade and bills payables		**60,743**	(313,778)
Increase in amounts due to related companies		**229,447**	234,695
Increase in customers' deposits, other payables and accruals		**340,755**	81,560
Cash generated from operations		**2,167,633**	4,276,819
Interest received		**247,925**	209,616
Dividends paid		**(94,093)**	–
PRC income tax paid		**(326,413)**	(346,821)
Net cash flows from operating activities		**1,995,052**	4,139,614

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
Net cash flows from operating activities		**1,995,052**	4,139,614
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(435,924)**	(811,731)
Proceeds from disposal of items of property and equipment		**108,016**	66,108
Repayment of other loan	*35*	**–**	(92,000)
Acquisition of subsidiaries, net of cash acquired	*35*	**–**	8,269
Net cash flows used in investing activities		**(327,908)**	(829,354)
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of convertible bonds		**–**	(2,598,042)
Exercise of share options		**–**	2,313
New bank loans	*25*	**2,729,636**	2,434,374
Decrease/(increase) in pledged deposits for bank loans	*24*	**36,415**	(2,468,007)
Repayment of bank loan		**(2,408,034)**	–
Acquisition of non-controlling interests in subsidiaries		**–**	(3,900)
Deemed disposal of non-controlling interests in subsidiaries		**–**	73,333
Interest paid		**(63,583)**	(106,567)
Net cash flows from/(used in) financing activities		**294,434**	(2,666,496)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,961,578**	643,764
Cash and cash equivalents at beginning of year		**7,067,349**	6,413,839
Effect of foreign exchange rate changes, net		**(13,114)**	9,746
CASH AND CASH EQUIVALENTS AT END OF YEAR		**9,015,813**	7,067,349
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*24*	**8,699,676**	6,541,500
Non-pledged time deposits with original maturity of less than three months when acquired	*24*	**316,137**	525,849
		9,015,813	7,067,349

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*19*	**5,389,635**	5,389,635
Total non-current assets		**5,389,635**	5,389,635
CURRENT ASSETS			
Amounts due from subsidiaries	*19*	**6,718,389**	5,738,285
Prepayments and other receivables	*22*	**1,060**	2,282
Cash and cash equivalents	*24*	**705,137**	583,289
Total current assets		**7,424,586**	6,323,856
CURRENT LIABILITIES			
Interest-bearing bank loans	*25*	**2,683,171**	2,434,374
Other payables and accruals	*27*	**7,601**	12,893
Amounts due to subsidiaries	*19*	**659,178**	679,976
Total current liabilities		**3,349,950**	3,127,243
NET CURRENT LIABILITIES		**4,074,636**	3,196,613
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,464,271**	8,586,248
NON-CURRENT LIABILITY			
Derivative liability related to a cross currency swap	*28*	**–**	4,953
Total non-current liability		**–**	4,953
Net assets		**9,464,271**	8,581,295
EQUITY			
Issued capital	*29*	**421,551**	421,551
Reserves	*31(b)*	**8,601,328**	8,159,744
Proposed dividends	*32*	**441,392**	–
Total equity		**9,464,271**	8,581,295

Zhang Da Zhong
Director

Zou Xiao Chun
Director

NOTES
TO FINANCIAL STATEMENTS

31 December 2013

1. CORPORATE INFORMATION

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, other investments which are classified as available-for-sale financial assets and a derivative liability related to a cross currency swap, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government loans*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of interests in other Entities*
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*
IFRS 13	*Fair Value Measurement*
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
IAS 19 (2011)	*Employee Benefits*
IAS 27 (2011)	*Separate Financial Statements*
IAS 28 (2011)	*Investments in Associates and Joint Ventures*
IFRIC-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs Issued in May 2012

Other than as further explained below regarding the impact of IFRS 10, IFRS 11, IFRS 12, IFRS 13, IAS 19 (2011), amendments to IAS 1 and certain amendments included in Annual Improvements 2009-2011 Cycle, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

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

(a) IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in SIC – Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in IFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of the application of IFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

The application of IFRS 10 has affected the accounting for the Group's contractual arrangement with Beijing Zhansheng Investment Co., Ltd. ("Beijing Zhansheng", the legal owner of Dazhong Appliances). Having considered the power of the Group over Beijing Dazhong Home Appliances Retail Co., Ltd. ("Dazhong Appliances") and the Group's exposure to the variability of returns of Dazhong Appliances through a management agreement, a loan agreement and an option agreement, entered into between the Group and Beijing Zhansheng, the Group has determined that the contractual rights held by the Group via the foregoing agreements would be sufficient to give the Group control over Dazhong Appliances under IFRS 10 since the date of initial contractual arrangement.

Upon the adoption of IFRS 10 on 1 January 2013, retrospective adjustments have been made to the previous accounting and Dazhong Appliances has been accounted for as a wholly-owned subsidiary of the Group and consolidated since 18 December 2007, which include the adjustments to the recognition and measurement of the identifiable assets acquired and the liabilities assumed in Dazhong Appliances at the date when the initial contractual arrangement became effective, and subsequently Dazhong Appliances were treated as a subsidiary of the Group and consolidated as if IFRS 10 had always been effective. The opening balances as at 1 January 2012 and comparative information for the year ended 31 December 2012 have been restated in the consolidated financial statements. The quantitative impact on the financial statements is summarised below:

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Restated consolidated statement of profit or loss for the year ended 31 December 2012

	As previously reported RMB'000	Effect of prior year adjustments RMB'000	As restated RMB'000
REVENUE	47,867,260	3,229,840	51,097,100
Cost of sales	(41,664,469)	(2,612,020)	(44,276,489)
Gross profit	6,202,791	617,820	6,820,611
Other income and gains	1,541,381	150,759	1,692,140
Selling and distribution expenses	(6,803,916)	(577,354)	(7,381,270)
Administrative expenses	(1,423,057)	(67,051)	(1,490,108)
Other expenses	(418,717)	(34,456)	(453,173)
Loss from operating activities	(901,518)	89,718	(811,800)
Finance costs	(227,708)	–	(227,708)
Finance income	441,221	(195,167)	246,054
Share of profit of an associate	–	428	428
Gains on redemption of convertible bonds	34,011	–	34,011
LOSS BEFORE TAX	(653,994)	(105,021)	(759,015)
Income tax expense	(155,997)	(26,863)	(182,860)
LOSS FOR THE YEAR	(809,991)	(131,884)	(941,875)
Attributable to:			
Owners of the parent company	(596,614)	(131,884)	(728,498)
Non-controlling interests	(213,377)	–	(213,377)
	(809,991)	(131,884)	(941,875)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY			
– Basic	(RMB3.5 fen)		(RMB4.3 fen)
– Diluted	(RMB3.6 fen)		(RMB4.4 fen)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Restated consolidated statement of comprehensive income for the year ended 31 December 2012

	As previously reported RMB'000	Effect of prior year adjustments RMB'000	As restated RMB'000
LOSS FOR THE YEAR	(809,991)	(131,884)	(941,875)
OTHER COMPREHENSIVE LOSS			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of other investments	(21,600)	–	(21,600)
Exchange differences on translation of foreign operations	9,746	–	9,746
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	(11,854)	–	(11,854)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(11,854)	–	(11,854)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(821,845)	(131,884)	(953,729)
Attributable to:			
Owners of the parent company	(608,468)	(131,884)	(740,352)
Non-controlling interests	(213,377)	–	(213,377)
	(821,845)	(131,884)	(953,729)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Restated consolidated statement of financial position as at 31 December 2012

	As previously reported	**Effect of prior year adjustments**	**As restated**
	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property and equipment	4,163,569	215,878	4,379,447
Investment properties	918,472	–	918,472
Goodwill	4,030,771	3,130,136	7,160,907
Other intangible assets	99,438	213,239	312,677
Other investments	124,200	–	124,200
Lease prepayments and deposits	330,953	25,665	356,618
Deferred tax assets	136,852	–	136,852
Designated loan	3,600,000	(3,600,000)	–
Total non-current assets	13,404,255	(15,082)	13,389,173
CURRENT ASSETS			
Inventories	7,385,352	393,812	7,779,164
Trade and bills receivables	194,746	8,324	203,070
Prepayments, deposits and other receivables	2,542,750	300,031	2,842,781
Due from related companies	101,539	89,403	190,942
Pledged deposits	6,019,027	221,217	6,240,244
Cash and cash equivalents	6,730,960	336,389	7,067,349
Total current assets	22,974,374	1,349,176	24,323,550

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Restated consolidated statement of financial position as at 31 December 2012 *(continued)*

	As previously reported RMB'000	Effect of prior year adjustments RMB'000	As restated RMB'000
CURRENT LIABILITIES			
Interest-bearing bank loans	2,434,374	–	2,434,374
Trade and bills payables	16,971,671	1,045,075	18,016,746
Customers' deposits, other payables and accruals	1,631,309	90,701	1,722,010
Due to related companies	112,480	122,215	234,695
Tax payable	374,266	85,494	459,760
Total current liabilities	21,524,100	1,343,485	22,867,585
NET CURRENT ASSETS	1,450,274	5,691	1,455,965
TOTAL ASSETS LESS CURRENT LIABILITIES	14,854,529	(9,391)	14,845,138
NON-CURRENT LIABILITIES			
Deferred tax liabilities	95,263	75,340	170,603
Derivative liability related to a cross currency swap	4,953	–	4,953
Total non-current liabilities	100,216	75,340	175,556
Net assets	14,754,313	(84,731)	14,669,582
EQUITY			
Equity attributable to owners of the parent company			
Issued capital	421,551	–	421,551
Reserves	14,727,528	(84,731)	14,642,797
	15,149,079	(84,731)	15,064,348
Non-controlling interests	(394,766)	–	(394,766)
Total equity	14,754,313	(84,731)	14,669,582

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Restated consolidated statement of cash flows for the year ended 31 December 2012

	As previously reported RMB'000	Effect of prior year adjustments RMB'000	As restated RMB'000
Cash and cash equivalents at beginning of year	5,971,498	442,341	6,413,839
Net cash flows from operating activities	4,137,266	2,348	4,139,614
Net cash flows used in investing activities	(721,054)	(108,300)	(829,354)
Net cash flows used in financing activities	(2,666,496)	–	(2,666,496)
Effect of foreign exchange rate changes, net	9,746	–	9,746
CASH AND CASH EQUIVALENTS AT END OF YEAR	6,730,960	336,389	7,067,349

Restated consolidated statement of financial position as at 1 January 2012

	As previously reported RMB'000	Effect of prior year adjustments RMB'000	As restated RMB'000
NON-CURRENT ASSETS			
Property and equipment	3,874,370	58,106	3,932,476
Investment properties	915,226	–	915,226
Goodwill	4,030,771	3,130,136	7,160,907
Other intangible assets	108,660	227,455	336,115
Investment in an associate	–	39,973	39,973
Other investments	145,800	–	145,800
Lease prepayments and deposits	401,994	159,889	561,883
Deferred tax assets	66,663	–	66,663
Designated loan	3,600,000	(3,600,000)	–
Total non-current assets	13,143,484	15,559	13,159,043
CURRENT ASSETS			
Inventories	9,625,044	543,861	10,168,905
Trade and bills receivables	199,598	92,152	291,750
Prepayments, deposits and other receivables	3,729,456	59,520	3,788,976
Due from related companies	169,390	–	169,390
Pledged deposits	4,388,998	364,591	4,753,589
Cash and cash equivalents	5,971,498	442,341	6,413,839
Total current assets	24,083,984	1,502,465	25,586,449

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Restated consolidated statement of financial position as at 1 January 2012 *(continued)*

	As previously reported RMB'000	**Effect of prior year adjustments** RMB'000	**As restated** RMB'000
CURRENT LIABILITIES			
Trade and bills payables	17,140,383	1,190,141	18,330,524
Customers' deposits, other payables and accruals	1,523,315	105,383	1,628,698
Convertible bonds	2,111,610	–	2,111,610
Tax payable	440,905	111,283	552,188
Total current liabilities	21,216,213	1,406,807	22,623,020
NET CURRENT ASSETS	2,867,771	95,658	2,963,429
TOTAL ASSETS LESS CURRENT LIABILITIES	16,011,255	111,217	16,122,472
NON-CURRENT LIABILITIES			
Deferred tax liabilities	92,961	64,064	157,025
Total non-current liabilities	92,961	64,064	157,025
Net assets	15,918,294	47,153	15,965,447
EQUITY			
Equity attributable to owners of the parent company			
Issued capital	421,521	–	421,521
Reserves	15,527,242	47,153	15,574,395
	15,948,763	47,153	15,995,916
Non-controlling interests	(30,469)	–	(30,469)
Total equity	15,918,294	47,153	15,965,447

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

(c) IFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in IAS 27 *Consolidated and Separate Financial Statements,* IAS 31 *Interests in Joint Ventures and* IAS 28 *Investments in Associates.* It also introduces a number of new disclosure requirements for these entities. Details of the disclosures for subsidiaries are included in note 19 to the financial statements.

(d) IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. IFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in IFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by IFRS 13 for the fair value measurements of investment properties, other investments which are classified as available-for-sale financial assets and a derivative liability related to a cross currency swap are included in notes 13, 16 and 38 to the financial statements, respectively.

(e) The IAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.

(f) IAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. As the Group does not have any defined benefit plan or employee termination plan and the Group does not have any significant employee benefits that are expected to be settled for more than twelve months after the reporting period, the adoption of the revised standard has had no effect on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(g) Annual Improvements 2009-2011 Cycle issued in June 2012 sets out amendments to a number of standards. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

  In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- IAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirement in IAS 12 to any income tax arising from distributions to equity holders.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	*Financial Instruments*[3]
IFRS 9, IFRS 7 and IAS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*[3]
IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – *Investment Entities*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefit – Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRIC – Int 21	*Levies*[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 No mandatory effective date yet determined but is available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in "OCI". The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

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

In December 2013, the IASB added to IFRS 9 the requirements related to hedge accounting and made some related changes to IFRS 39 and IFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to IFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to IFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other IFRS 9 requirements at the same time.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of IFRS 9 was removed by the IASB in December 2013 and a mandatory effective date will be determined after the entire replacement of IAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the financial standard including all phases is issued.

Amendments to IFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (2011). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsidiaries *(continued)*

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person,

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent company of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment and depreciation

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life as follows:

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

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents the Group's enterprise operating systems under construction, which is stated at cost less any impairment loss, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

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

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property and equipment and depreciation” above. Any resulting decrease in the carrying amount of the property is recognised in the statement of profit or loss. Any resulting increase in the carrying amount is recognised in the statement of profit or loss to the extent that the increase reverses a previous impairment loss for that property. The amount recognised in the statement of profit or loss does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised. Any remaining part of the increase is recognised in other comprehensive income and increases the asset revaluation reserve. On subsequent disposal of the investment property, the revaluation surplus included in the asset revaluation reserve is transferred to retained earnings.

Intangible assets (other than goodwill)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments

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

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

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial investments

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

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and bills payables, financial liabilities included in customers' deposits, other payables and accruals, amounts due to related companies and interest-bearing bank loans.

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

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

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

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

- Management and purchasing service fee income, management fee income for air-conditioner installation and other service fee income are recognised when such services have been rendered;

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

- Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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

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

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

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

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

Other employee benefits

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

Contributions to defined contribution retirement plans are recognised as an expense in the statement of profit or loss as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits *(continued)*

Pursuant to the relevant PRC laws and regulations, the employees of the Group's PRC subsidiaries are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of the salaries of their employees to the central pension scheme. The only obligation of these subsidiaries with respect to the central pension scheme is the ongoing required contributions. Contributions made to the retirement benefit scheme are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

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

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Renminbi at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

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

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

Classification between investment properties and owner-occupied properties
The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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

Consolidation of Dazhong Appliances of which the Group is not the legal owner
The Group considers that it control Dazhong Appliance even though it does not own any equity interest or voting rights. Pursuant to a series of agreements entered into between the Group ("the investor") and Beijing Zhansheng, the legal owner of Dazhong Appliances, the investor is responsible for the management and operation of Dazhong Appliances and has the rights to direct the relevant activities of it. In addition, the investor is exposed to variable returns from its involvement with Dazhong Appliances and has ability to use its power over Dazhong Appliance to affect the amount of the investor's returns.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of financial assets
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2013 was RMB7,145,117,000 (2012: RMB7,160,907,000). Further details are given in note 14.

Estimation of fair value of investment properties
In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties as at 31 December 2013 was RMB948,805,000 (2012: RMB918,472,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 13 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment of all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to tax losses at 31 December 2013 was RMB23,703,000 (2012: RMB111,086,000). The amount of unrecognised tax losses at 31 December 2013 amounted to RMB3,624,900,000 (2012: RMB3,311,900,000). Further details are given in note 18 to the financial statements.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. As at 31 December 2013, the carrying amount of available-for-sale assets was RMB135,000,000 (2012: RMB124,200,000). Further details are given in note 16 to the financial statements.

Assessment of useful lives of property and equipment

The Group has estimated the useful lives of the property and equipment of 4 to 40 years. Depreciation of items of property and equipment is calculated on the straight-line basis over their expected useful lives. The carrying amount of items of property and equipment as at 31 December 2013 was RMB4,094,770,000 (2012: RMB4,379,447,000). Further details are given in note 12 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

Management monitors the results of the Group's operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that bank interest income, unallocated income, gains on redemption of convertible bonds, gain on settlement of/fair value loss on a cross currency swap, finance costs and corporate and other unallocated expenses are excluded from this measurement.

Segment assets exclude other investments, deferred tax assets, pledged deposits and cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans, tax payable, deferred tax liabilities and a derivative liability related to a cross currency swap as these liabilities are managed on a group basis.

	2013 **RMB'000**	2012 RMB'000 (Restated)
Segment revenue		
Sales to external customers	**56,400,662**	51,097,100
Segment results	**1,014,292**	(791,400)
Reconciliation:		
Bank interest income	**240,725**	245,068
Unallocated income	**37,906**	32,984
Gains on redemption of convertible bonds	**–**	34,011
Gain on settlement of/(fair value loss on) a cross currency swap	**11,002**	(4,953)
Finance costs	**(60,569)**	(227,708)
Corporate and other unallocated expenses	**(48,681)**	(47,017)
Profit/(loss) before tax	**1,194,675**	(759,015)

4. OPERATING SEGMENT INFORMATION *(continued)*

	2013	2012
	RMB'000	RMB'000
		(Restated)
Segment assets	**23,715,789**	24,144,078
Reconciliation:		
Corporate and other unallocated assets	**15,608,196**	13,568,645
Total assets	**39,323,985**	37,712,723
Segment liabilities	**20,588,440**	19,973,451
Reconciliation:		
Corporate and other unallocated liabilities	**3,418,087**	3,069,690
Total liabilities	**24,006,527**	23,043,141
Other segment information		
Depreciation and amortisation	**576,141**	493,982
Capital expenditure*	**429,827**	811,617

* Capital expenditure consists of additions to property and equipment.

Geographical information

(a) Revenue from external customers

	2013	2012
	RMB'000	RMB'000
		(Restated)
Mainland China	**56,400,662**	51,097,100

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

(b) Non-current assets

	2013	2012
	RMB'000	RMB'000
		(Restated)
Mainland China	**12,768,409**	13,102,558
Hong Kong	**24,499**	25,563
	12,792,908	13,128,121

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
Revenue			
Sale of electrical appliances and consumer electronic products		**56,400,662**	51,097,100
Other income			
Income from suppliers, net		**496,695**	552,182
Management and purchasing service fees from the Non-listed GOME Group	*(i)*	**250,000**	250,000
Income from air-conditioner installation		**107,279**	95,564
Gross rental income		**282,691**	236,623
Government grants	*(ii)*	**143,744**	221,227
Other service fee income		**137,701**	85,939
Income from compensation		**48,892**	14,316
Other income from telecommunication service providers		**193,169**	86,818
Others		**112,559**	53,977
		1,772,730	1,596,646
Gains			
Fair value gain on investment properties	*13*	**30,333**	29,739
Foreign exchange difference, net		**37,906**	21,051
Gain on bargain purchase of an associate upon step acquisition	*35*	**–**	31,139
Gain on settlement of a cross currency swap		**11,002**	–
Fair value gain on revaluation of equity interest in an associate upon step acquisition		**–**	13,565
		79,241	95,494
		1,851,971	1,692,140

Notes:

(i) The Non-listed GOME Group is defined in note 34(a) to the financial statements.

(ii) Various local government grants were received to reward the Group's contributions to the local economy. There was no unfulfilled condition or contingency attaching to these government grants.

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
Cost of inventories sold		**47,898,540**	44,276,489
Depreciation	*12*	**552,703**	470,544
Amortisation of intangible assets	*15, (i)*	**23,438**	23,438
Loss on disposal of items of property and equipment		**53,785**	6,683
Minimum lease payments under operating leases in respect of land and buildings		**3,171,486**	3,369,346
Impairment of goodwill		**15,790**	–
Gross rental income	*5*	**(282,691)**	(236,623)
Fair value gain on investment properties	*5,13*	**(30,333)**	(29,739)
Gains on redemption of convertible bonds		**–**	(34,011)
(Gain on settlement of)/fair value loss on a cross currency swap	*28*	**(11,002)**	4,953
Foreign exchange differences, net		**(37,906)**	(21,051)
Auditors' remuneration			
– audit services		**7,437**	6,387
– non-audit services		**611**	1,014
Staff costs excluding directors' and chief executive's remuneration *(note 8):*			
Wages, salaries and bonuses		**1,990,954**	1,948,843
Pension scheme contributions*		**418,136**	448,801
Social welfare and other costs		**38,186**	38,712
Equity-settled share option expense		**(5,867)**	(515)
		2,441,409	2,435,841

Note:

(i) The amortisation of intangible assets for the year is included in "Administrative expenses" in the consolidated statement of profit or loss.

* At 31 December 2013, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2012: Nil).

7. FINANCE (COSTS)/INCOME

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

	2013 RMB'000	2012 RMB'000 (Restated)
Finance costs:		
Interest on bank loans wholly repayable within five years	**(60,569)**	(43,131)
Interest expenses on convertible bonds	**–**	(184,577)
	(60,569)	(227,708)
Finance income:		
Bank interest income	**240,725**	245,068
Other interest income	**–**	986
	240,725	246,054

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2013 RMB'000	2012 RMB'000
Fees	**4,099**	4,099
Other emoluments:		
Salaries, allowances and other expense	**4,019**	4,339
Equity-settled share option expense	**(896)**	1,315
Pension scheme contributions	**46**	60
	3,169	5,714

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

During the year 2009, certain directors and chief executive were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of these options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

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

	Note	**2013** **RMB'000**	2012 RMB'000
Mr. Sze Tsai Ping, Michael		**479**	488
Mr. Chan Yuk Sang		**479**	488
Mr. Lee Kong Wai, Conway		**479**	488
Mr. Ng Wai Hung		**479**	488
Ms. Liu Hong Yu	*(ii)*	**267**	–
Mr. Thomas Joseph Manning		**–**	194
		2,183	2,146

Notes:

(i) There was no other emolument payable to the independent non-executive directors during the year (2012: Nil).

(ii) Ms. Liu Hong Yu was appointed as an independent non-executive director of the Company on 10 June 2013.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and the chief executive

2013	Note	Fees RMB'000	Salaries, allowances and other expense RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
Mr. Zou Xiao Chun		–	1,878	–	–	1,878
Mr. Ng Kin Wah	*(i)*	–	945	(370)	10	585
		–	2,823	(370)	10	2,463
Non-executive directors:						
Mr. Zhang Da Zhong		479	–	–	–	479
Mr. Zhu Jia		479	–	–	–	479
Ms. Wang Li Hong		479	–	–	–	479
Mr. Cheung Leong		479	–	–	–	479
		1,916	–	–	–	1,916
Chief executive:						
Mr. Wang Jun Zhou		–	1,196	(526)	36	706
		1,916	4,019	(896)	46	5,085

Note:

(i) Mr. Ng Kin Wah passed away on 13 October 2013.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and the chief executive *(continued)*

2012	Note	Fees RMB'000	Salaries, allowances and other expense RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
Mr. Zou Xiao Chun		–	1,751	–	19	1,770
Mr. Ng Kin Wah		–	1,200	238	11	1,449
		–	2,951	238	30	3,219
Non-executive directors:						
Mr. Zhang Da Zhong		488	–	–	–	488
Mr. Zhu Jia		488	–	–	–	488
Ms. Wang Li Hong		488	–	–	–	488
Mr. Cheung Leong		248	–	–	–	248
Mr. Ian Andrew Reynolds	*(i)*	241	–	–	–	241
		1,953	–	–	–	1,953
Chief executive:						
Mr. Wang Jun Zhou		–	1,388	1,077	30	2,495
		1,953	4,339	1,315	60	7,667

Note:

(i) Mr. Ian Andrew Reynolds retired as a non-executive director on 28 June 2012.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(c) Five highest paid individuals

The five highest paid individuals during the year included one director and the chief executive (2012: one director and the chief executive). Details of the director's and the chief executive's remuneration are set out above. Details of the remuneration for the year of the remaining three (2012: three) highest paid individuals who are neither a director nor the chief executive of the Group are as follows:

	2013	2012
	RMB'000	RMB'000
Salaries, allowances and other expense	**3,500**	3,519
Pension scheme contributions	**92**	85
Equity-settled share option expense	**(1,211)**	2,469
	2,381	6,073

The number of non-director and non-chief-executive highest paid individuals whose remuneration fell within the following bands is as follows:

	Number of individuals	
	2013	2012
HK$1,000,001 to HK$1,500,000 (equivalent to RMB798,001 to RMB1,197,000)	**1**	2
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,197,001 to RMB1,596,000)	**2**	1
	3	3

9. PENSION SCHEMES

All the PRC subsidiaries of the Group are required to participate in the employee retirement benefit schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make contributions for those employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at rates ranging from 20% to 22.5% of the employees' salaries for the years ended 31 December 2013 and 2012.

All the Hong Kong subsidiaries of the Group are required to participate in the MPF scheme under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Group is required to make contributions for those employees who are registered as permanent residents in Hong Kong and are within the scope of the relevant Hong Kong regulations at lesser of HK$1,250 and 5% of the employees' salaries for the years ended 31 December 2013 and 2012.

The Group's contributions to pension schemes for the year ended 31 December 2013 amounted to approximately RMB418,182,000 (2012: RMB448,861,000).

10. INCOME TAX EXPENSE

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

	2013	2012
	RMB'000	RMB'000 (Restated)
Current income tax – PRC	**429,273**	254,393
Deferred income tax *(note 18)*	**87,957**	(71,533)
Total tax charge for the year	**517,230**	182,860

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

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

10. INCOME TAX EXPENSE *(continued)*

Under the relevant PRC income tax law, except for certain preferential treatments available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2012: 25%) on their respective taxable income. During the year, 22 entities (2012: 22 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

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

No provision for Hong Kong profits tax has been made for the years ended 31 December 2013 and 2012, as the Group had no assessable profits arising in Hong Kong for the respective years.

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

	2013				
	Hong Kong		**PRC**		**Total**
	RMB'000	**%**	**RMB'000**	**%**	**RMB'000**
(Loss)/profit before tax	**(54,056)**		**1,248,731**		**1,194,675**
Income tax at the statutory tax rate	**(8,919)**	**16.5**	**312,183**	**25.0**	**303,264**
Tax effect of preferential tax rates	**–**		**(54,387)**		**(54,387)**
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**–**		**100,968**		**100,968**
Income not subject to tax	**(6,809)**		**(28,479)**		**(35,288)**
Expense not deductible for tax	**13,537**		**82,083**		**95,620**
Tax losses utilised from previous years	**–**		**(111,320)**		**(111,320)**
Tax losses not recognised	**2,191**		**216,182**		**218,373**
Tax charge at the Group's effective rate	**–**		**517,230**		**517,230**

10. INCOME TAX EXPENSE *(continued)*

	2012				
	Hong Kong		PRC		Total
	RMB'000	%	RMB'000	%	RMB'000
			(Restated)		(Restated)
Loss before tax	(202,769)		(556,246)		(759,015)
Income tax at the statutory tax rate	(33,457)	16.5	(139,061)	25.0	(172,518)
Tax effect of preferential tax rates	–		(33,304)		(33,304)
Income not subject to tax	(12,550)		(6,932)		(19,482)
Expense not deductible for tax	42,411		56,956		99,367
Tax losses utilised from previous years	–		(20,988)		(20,988)
Tax losses not recognised	3,596		326,189		329,785
Tax charge at the Group's effective rate	–		182,860		182,860

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. At 31 December 2013, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (2012: Nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY

The calculation of the basic earnings or loss per share is based on the profit or loss for the year attributable to ordinary equity holders of the parent company, and the weighted average number of ordinary shares of 16,875,056,000 (2012: 16,874,829,000) in issue during the year.

The calculation of the diluted earnings or loss per share is based on the profit or loss for the year attributable to ordinary equity holders of the parent company. The weighted average number of ordinary shares used in the calculation of diluted earnings or loss per share is the weighted average number of ordinary shares in issue during the year, as used in the basic earnings or loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

The calculations of the basic and diluted earnings or loss per share are based on:

	2013 RMB'000	2012 RMB'000 (Restated)
Earnings or loss		
Profit/(loss) attributable to ordinary equity holders of the parent company used in the basic earnings/(loss) per share calculation	**892,475**	(728,498)
Interest on convertible bonds	**–**	3,417
Gain on redemption of convertible bonds	**–**	(15,998)
Profit/(loss) attributable to ordinary equity holders of the parent company as adjusted for the effect of dilution	**892,475**	(741,079)

	Number of shares	
	2013 **'000**	2012 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings or loss per share calculation	**16,875,056**	16,874,829
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	**–**	14,822
	16,875,056	16,889,651

12. PROPERTY AND EQUIPMENT

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013						
At 31 December 2012 and 1 January 2013, as restated:						
Cost	3,346,349	1,628,274	1,402,522	92,779	6,600	6,476,524
Accumulated depreciation and impairment	(489,567)	(968,310)	(572,919)	(66,281)	–	(2,097,077)
Net carrying amount	2,856,782	659,964	829,603	26,498	6,600	4,379,447
At 1 January 2013, net of accumulated depreciation and impairment, as restated:	2,856,782	659,964	829,603	26,498	6,600	4,379,447
Additions	–	221,916	106,643	4,913	96,355	429,827
Disposals	–	(91,539)	(69,341)	(921)	–	(161,801)
Depreciation provided during the year	(87,175)	(181,965)	(272,479)	(11,084)	–	(552,703)
Transfers from construction in progress	–	–	102,525	–	(102,525)	–
At 31 December 2013, net of accumulated depreciation and impairment	2,769,607	608,376	696,951	19,406	430	4,094,770
At 31 December 2013:						
Cost	3,346,349	1,758,651	1,542,349	96,771	430	6,744,550
Accumulated depreciation and impairment	(576,742)	(1,150,275)	(845,398)	(77,365)	–	(2,649,780)
Net carrying amount	2,769,607	608,376	696,951	19,406	430	4,094,770

12. PROPERTY AND EQUIPMENT *(continued)*

Group *(continued)*

	Buildings RMB'000	Leasehold improvements RMB'000	Equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012						
At 1 January 2012, as restated						
Cost	3,043,190	1,407,468	1,024,477	82,130	1,744	5,559,009
Accumulated depreciation and impairment	(404,700)	(794,518)	(372,788)	(54,527)	–	(1,626,533)
Net carrying amount	2,638,490	612,950	651,689	27,603	1,744	3,932,476
At 1 January 2012, net of accumulated depreciation and impairment, as restated	2,638,490	612,950	651,689	27,603	1,744	3,932,476
Additions	124,470	275,785	236,312	10,761	164,289	811,617
Acquisition of subsidiaries *(note 35)*	152,196	–	–	–	–	152,196
Disposals	–	(54,979)	(17,700)	(112)	–	(72,791)
Depreciation provided during the year	(84,867)	(173,792)	(200,131)	(11,754)	–	(470,544)
Transfers from construction in progress	–	–	159,433	–	(159,433)	–
Transfers from investment properties *(note 13)*	26,493	–	–	–	–	26,493
At 31 December 2012, net of accumulated depreciation and impairment, as restated	2,856,782	659,964	829,603	26,498	6,600	4,379,447
At 31 December 2012, as restated						
Cost	3,346,349	1,628,274	1,402,522	92,779	6,600	6,476,524
Accumulated depreciation and impairment	(489,567)	(968,310)	(572,919)	(66,281)	–	(2,097,077)
Net carrying amount	2,856,782	659,964	829,603	26,498	6,600	4,379,447

Certain of the buildings of the Group in the PRC were pledged as security for bills payable (note 26) of the Group as at 31 December 2013. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2013 amounted to RMB283,348,000 (31 December 2012: RMB1,267,934,000).

13. INVESTMENT PROPERTIES

Group

	2013 RMB'000	2012 RMB'000
Carrying amount at 1 January	**918,472**	915,226
Net gain from a fair value adjustment	**30,333**	29,739
Transfer to owner-occupied properties *(note 12)*	**–**	(26,493)
Carrying amount at 31 December	**948,805**	918,472

Investment properties comprised commercial properties in the PRC that are leased to third parties and an industrial property and a car park in Hong Kong that are leased to a related company (notes 33(a), 34(a)(v)) and a third party, respectively.

Investment properties are stated at fair value, which has been determined with reference to the valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle") and B.I. Appraisals Limited, independent firms of professionally qualified valuers, on the income approach and direct comparison approach, as at 31 December 2013. The fair value represents the amount of market value at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The Group's management has discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

As at 31 December 2013, investment properties of approximately RMB23,586,000 (31 December 2012: RMB24,327,000) are located in Hong Kong under medium term leases and investment properties of approximately RMB925,219,000 (31 December 2012: RMB894,145,000) are located in the PRC under medium term leases.

Certain of the investment properties of the Group in the PRC were pledged as security for bills payable (note 26) of the Group as at 31 December 2013. The aggregate fair value of the pledged investment properties attributable to the Group as at 31 December 2013 amounted to RMB105,476,000 (31 December 2012: RMB287,643,000).

13. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2013 using			
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	–	–	**925,219**	**925,219**
Industrial property	–	–	**23,586**	**23,586**
	–	–	**948,805**	**948,805**

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties RMB'000	Industrial property RMB'000
Carrying amount at 1 January 2013	894,145	24,327
Net gain/(loss) from a fair value adjustment	31,074	(741)
Carrying amount at 31 December 2013	925,219	23,586

13. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range
Commercial properties	Discounted cash flow method	Estimated rental value (RMB per square meter and per month)	26.3 – 477.3
		Rent growth (per annum)	-1% – 3%
		Long term vacancy rate	5% – 15%
		Discount rate	5% – 8%

	Valuation techniques	Significant unobservable inputs	Unit price
Industrial property	Direct comparison approach	Market value (RMB per square meter)	18,123

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase or decrease in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase or decrease in the fair value of the investment properties. A significant increase or decrease in the long term vacancy rate and the discount rate in isolation would result in a significant decrease or increase in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long term vacancy rate.

Under the direct comparison approach, fair value is estimated by making reference to comparable sale evidence as available in the relevant market by taking into account the current rent and license fee passing and the reversionary income potential of the property. A significant increase or decrease in the market value would result in a significant increase or decrease in the fair value of the investment properties.

14. GOODWILL

Group

		2013 RMB'000	2012 RMB'000 (Restated)
At 1 January:			
Cost		**7,170,907**	7,170,907
Accumulated impairment		**(10,000)**	(10,000)
Net carrying amount		**7,160,907**	7,160,907
Cost at 1 January, net of accumulated impairment		**7,160,907**	7,160,907
Impairment during the year	*Note*	**(15,790)**	–
At 31 December		**7,145,117**	7,160,907
At 31 December:			
Cost		**7,170,907**	7,170,907
Accumulated impairment		**(25,790)**	(10,000)
Net carrying amount		**7,145,117**	7,160,907

Note:

After considering the restructuring of the business within the Group, an impairment loss for the goodwill arising from the acquisition of Huihai (defined below) was fully made during the year, amounting to RMB15,790,000. The long-term assets of Huihai were merged into another cash generating unit which the recoverable amount was over its carrying value.

14. GOODWILL *(continued)*

Impairment testing of goodwill

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

	2013 **RMB'000**	2012 RMB'000 (Restated)
China Paradise Electronics Retail Limited ("China Paradise") 永樂(中國)電器銷售有限公司	**3,920,393**	3,920,393
Beijing Dazhong Home Appliances Retail Company Limited 北京市大中家用電器連鎖銷售有限公司	**3,130,136**	3,130,136
Shaanxi Cellstar Telecommunication Retail Chain Company Limited 陝西蜂星電訊零售連鎖有限責任公司	**60,428**	60,428
Shenzhen Gome Electrical Appliances Company Limited and Guangzhou Gome Electrical Appliances Company Limited 深圳國美電器有限公司和廣州市國美電器有限公司	**22,986**	22,986
Shandong Longji Island Construction Company Limited 山東龍脊島建設有限公司	**8,000**	8,000
Wuhan Gome Electrical Appliances Company Limited 武漢國美電器有限公司	**7,300**	7,300
Jiangsu Pengrun Gome Electrical Appliance Company Limited and Nanjing Pengze Investment Company Limited 江蘇鵬潤國美電器有限公司和南京鵬澤投資有限公司	**5,874**	5,874
Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. ("Huihai") 北京匯海天韻商務諮詢有限公司	**15,790**	15,790
	7,170,907	7,170,907
Impairment	**(25,790)**	(10,000)
	7,145,117	7,160,907

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are prepared based on financial budgets as approved by the management which cover a period of five years. The pre-tax discount rates applied to the cash flow projections range from 16.95% to 17.42% (2012: range from 14.54% to 15.25%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2012: 3%). The management believes that this growth rate is conservative and reliable for the purpose of this impairment testing.

14. GOODWILL *(continued)*

Key assumptions used in the value in use calculations

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

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

Sensitivity to changes in assumptions

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

15. OTHER INTANGIBLE ASSETS

Group

	Trademarks RMB'000
31 December 2013	
At 31 December 2012 and 1 January 2013, as restated:	
Cost	440,959
Accumulated amortisation	(128,282)
Net carrying amount	312,677
Cost at 1 January 2013, net of accumulated amortisation, as restated	312,677
Amortisation provided during the year	(23,438)
At 31 December 2013	289,239
At 31 December 2013:	
Cost	440,959
Accumulated amortisation	(151,720)
Net carrying amount	289,239
31 December 2012 (Restated)	
At 1 January 2012:	
Cost	440,959
Accumulated amortisation	(104,844)
Net carrying amount	336,115
Cost at 1 January 2012, net of accumulated amortisation	336,115
Amortisation provided during the year	(23,438)
At 31 December 2012	312,677
At 31 December 2012 and at 1 January 2013:	
Cost	440,959
Accumulated amortisation	(128,282)
Net carrying amount	312,677

Note:

The cost mainly represents the fair value of the trademark arising from the acquisition of 常州金太陽至尊電器有限公司 ("Changzhou Jintaiyang Zhizun Home Appliance Co., Ltd.") of RMB25,915,000 in 2005, the fair value of the trademark arising from the acquisition of China Paradise of RMB129,000,000 in 2006 and the fair value of the trademark arising from the acquisition of the retailing business of Beijing Dazhong Home Appliances Retail Company Limited of RMB284,319,000, which are amortised on the straight-line basis over the management's estimate of their useful lives of 10 years, 20 years and 20 years, respectively.

16. OTHER INVESTMENTS

	2013 RMB'000	2012 RMB'000
PRC equity investments, at fair value	**135,000**	124,200

The balance as at 31 December 2013 represented the fair value of the Group's investments in 27,000,000 shares, representing approximately 10.7% of the outstanding issued shares of 三聯商社股份有限公司 ("Sanlian Commercial Co., Ltd." or "Sanlian"). Sanlian is a company established in the PRC and listed on the Shanghai Stock Exchange. The Group classified these investments as available-for-sale financial assets at 31 December 2013 and 2012. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss.

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

As at 31 December 2013, the fair value of these investments was based on the quoted market price of the listed shares, which was RMB5.0 per share (31 December 2012: RMB4.6 per share).

During the year, the gain in respect of the Group's other investments recognised in other comprehensive income amounted to RMB10,800,000 (2012: loss of RMB21,600,000). The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

During the year ended 31 December 2013, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to RMB nil (2012: RMB1,164,000).

17. LEASE PREPAYMENTS AND DEPOSITS

Group

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
Prepaid land lease payments	*(i)*	**36,930**	38,107
Rental prepayments and deposits	*(ii)*	**278,047**	318,511
		314,977	356,618

Notes:

(i) Prepaid land lease payments

Group

	Note	2013 RMB'000	2012 RMB'000
Carrying amount at 1 January		**39,284**	40,461
Recognised during the year		**(1,177)**	(1,177)
Carrying amount at 31 December		**38,107**	39,284
Current portion	*22*	**(1,177)**	(1,177)
Non-current portion		**36,930**	38,107

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

(ii) The balances at 31 December 2013 and 2012 represented the non-current portion of rental prepayments and deposits.

18. DEFERRED TAX

Group

	Note	Balance at 1 January 2013 RMB'000 (Restated)	Recognised in the consolidated statement of profit or loss RMB'000	Balance at 31 December 2013 RMB'000
Deferred tax assets:				
Tax losses	*(i)*	**111,086**	**(87,383)**	**23,703**
Fair value adjustment on investment properties		**2,953**	**1,119**	**4,072**
Fair value adjustment on transfer of owner-occupied properties to investment properties		**22,813**	**–**	**22,813**
		136,852	**(86,264)**	**50,588**
Deferred tax liabilities:				
Fair value adjustment on acquisition		**120,956**	**(7,194)**	**113,762**
Fair value adjustment on investment properties		**10,492**	**8,887**	**19,379**
Fair value adjustment on transfer of owner-occupied properties to investment properties		**39,155**	**–**	**39,155**
		170,603	**1,693**	**172,296**

18. DEFERRED TAX *(continued)*

Group *(continued)*

	Note	Balance at 1 January 2012 RMB'000 (Restated)	Arising from acquisition of subsidiary	Recognised in the consolidated statement of profit or loss RMB'000 (Restated)	Balance at 31 December 2012 RMB'000 (Restated)
Deferred tax assets:					
Tax losses	*(i)*	41,707	–	69,379	111,086
Fair value adjustment on investment properties		2,143	–	810	2,953
Fair value adjustment on transfer of owner-occupied properties to investment properties		22,813	–	–	22,813
		66,663	–	70,189	136,852
Deferred tax liabilities:					
Fair value adjustment on acquisition *(note 35)*		112,966	14,922	(6,932)	120,956
Fair value adjustment on investment properties		4,904	–	5,588	10,492
Fair value adjustment on transfer of owner-occupied properties to investment properties		39,155	–	–	39,155
		157,025	14,922	(1,344)	170,603

Note:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB421.1 million (2012: RMB407.8 million), that are available indefinitely, and in the PRC of RMB3,203.8 million (2012: RMB2,904.1 million), that will expire in one to five years, as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2013, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

19. INVESTMENTS IN SUBSIDIARIES

Company

	2013 RMB'000	2012 RMB'000
Unlisted shares, at cost	**5,389,635**	5,389,635

The amounts due from/to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and repayable on demand or within one year.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Capital Automation (BVI) Limited	British Virgin Islands/ Hong Kong	US$50,000	100	–	Investment holding
Grand Hope Investment Limited	British Virgin Islands/ Hong Kong	US$1 million	100	–	Investment holding
China Paradise Electronics Retail Limited	Cayman Islands	HK$235,662,979	100	–	Investment holding
China Eagle Management Limited	Hong Kong	HK$10,000	–	100	Management services
Hong Kong Punching Centre Limited	Hong Kong	HK$100,000	–	100	Property holding
Ocean Town Int'l Inc.	British Virgin Islands/ Hong Kong	US$50,000	–	100	Investment holding
Gome Appliance Company Limited ("Gome Appliance") *(viii)* 國美電器有限公司	PRC	RMB300 million	–	100	*Note (vi)*
Tianjin Gome Electrical Appliance Company Limited *(i)* 天津國美電器有限公司	PRC	RMB40 million	–	100	*Note (iii)*

19. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

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

19. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

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

19. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

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

19. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nanjing Pengze Investment Company Limited *(i)* 南京鵬澤投資有限公司	PRC	RMB156 million	–	100	Property holding
Yongle (China) Electronics Retail Company Limited *(ii)* 永樂（中國）電器銷售有限公司	PRC	RMB220 million	–	100	*Note (iii)*
Guangdong Yongle Electronics Retail Company Limited *(i)* 廣東永樂家用電器有限公司	PRC	RMB30 million	–	100	*Note (iii)*
Henan Yongle Electronics Retail Company Limited *(i)* 河南永樂生活電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Jiangsu Yongle Electronics Retail Company Limited *(i)* 江蘇永樂家用電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Shanghai Yongle Communication Equipment Company Limited *(i)* 上海永樂通訊設備有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Sichuan Yongle Electronics Retail Company Limited *(i)* 四川永樂家用電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Xiamen Yongle Siwen Electronics Retail Company Limited *(i)* 廈門永樂思文家電有限公司	PRC	RMB10 million	–	100	*Note (iii)*

19. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhejiang Yongle Electronics Retail Company Limited *(i)* 浙江永樂家用電器有限公司	PRC	RMB15 million	–	100	*Note (iii)*
Shaanxi Cellstar Telecommunication Retail Chain Company Limited *(i)* 陜西蜂星電訊零售連鎖有限責任公司	PRC	RMB10 million	–	100	*Note (vii)*
Shandong Longji Island Construction Company Limited *(i)* 山東龍脊島建設有限公司	PRC	RMB10 million	–	100	Investment holding
Suzhou Jiayue Trading Company Limited *(viii)* 蘇州嘉悦商貿有限公司	PRC	US$49.9 million	–	100	*Note (iv)*
Xuzhou Pengze Trading Company Limited *(i) (viii)* 徐州鵬澤商貿有限公司	PRC	US$99 million	–	100	Note (iv)
Xinjiang Hongsheng Logistics Company Limited *(i) (viii)* 新疆鴻盛物流有限公司	PRC	US$37 million	–	100	*Note (iv)*
Tianjin Pengze Logistics Company Limited *(i) (viii)* 天津鵬澤物流有限公司	PRC	US$50 million	–	100	*Note (iv)*
Xining Gome Electrical Appliance Company Limited ("Xining GOME") *(i)* 西寧國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)(iv)*

19. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Dazhong Henxin Ruida Logistics Company Limited *(i)* 北京市大中恒信瑞達商貿有限公司	PRC	RMB200 million	–	100	*Note (iv)*
Tianjin Henxin Ruida Logistics Company Limited *(i)* 天津恒信瑞達物流有限公司	PRC	RMB20 million	–	100	*Note (iv)*
Kuba Technology (Beijing) Co., Ltd. ("Kuba") *(i)* 庫巴科技（北京）有限公司	PRC	RMB83 million	–	60	*Note (ix)*
GOME-on-line e-Commerce Co., Ltd. ("GOME-on-line") *(i)* 國美在線電子商務有限公司	PRC	RMB83 million	–	60	*Note (ix)*
Beijing Dazhong Home Appliances Retail Co., Ltd. *(i)* 北京市大中家用電器連鎖銷售有限公司	PRC	RMB200 million	–	100	*Note (iii)*

Notes:

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

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

(iii) Retailing of electrical appliances and consumer electronic products

(iv) Provision of logistics services

(v) Provision of business management services

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

(vii) Retailing of mobile phones and accessories

(viii) Registered as wholly-foreign-owned enterprises under PRC law. The respective registered capital of these subsidiaries has been fully paid up

(ix) Online retailing of mainly electrical appliances and consumer electronic products

19. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

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

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2013	2012
Percentage of equity interest held by non-controlling interests:		
Kuba	**40%**	40%
GOME-on-line	**40%**	40%

	2013 **RMB'000**	2012 RMB'000
Loss for the year allocated to non-controlling interests:		
Kuba	**(21,299)**	(107,009)
GOME-on-line	**(193,731)**	(106,368)
Accumulated balances of non-controlling interests at the reporting dates:		
Kuba	**(218,140)**	(196,841)
GOME-on-line	**(391,656)**	(197,925)

19. INVESTMENTS IN SUBSIDIARIES *(continued)*

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2013	**Kuba RMB'000**	**GOME-on-line RMB'000**
Revenue	**209,787**	**2,805,977**
Loss for the year	**(53,246)**	**(484,328)**
Total assets	**334,357**	**636,078**
Total liabilities	**(879,704)**	**(1,615,217)**
Net (decrease)/increase in cash and cash equivalents	**(83,857)**	**47,943**

2012	Kuba RMB'000	GOME-on-line RMB'000
Revenue	1,401,660	2,386,283
Loss for the year	(379,758)	(378,381)
Total assets	501,504	594,726
Total liabilities	(993,605)	(1,089,537)
Net increase/(decrease) in cash and cash equivalents	66,477	(15,267)

20. INVENTORIES

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Merchandise for resale	**8,053,461**	7,686,689
Consumables	**167,273**	92,475
	8,220,734	7,779,164

As at 31 December 2013, the Group's inventories amounting to RMB573 million (31 December 2012: RMB227 million) were pledged as security for the Group's bills payable (note 26).

21. TRADE AND BILLS RECEIVABLES

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

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

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Outstanding balances, aged:		
Within 3 months	**208,500**	148,355
3 to 6 months	**25,099**	51,790
6 months to 1 year	**11,893**	2,925
	245,492	203,070

21. TRADE AND BILLS RECEIVABLES *(continued)*

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

Group

	2013	2012
	RMB'000	RMB'000
		(Restated)
Neither past due nor impaired	**104,250**	172,166
Less than 3 months past due	**116,800**	23,484
Over 3 months past due	**24,442**	7,420
	245,492	203,070

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

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

The balances are unsecured and non-interest-bearing.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

		2013	2012
	Notes	**RMB'000**	RMB'000
			(Restated)
Prepayments		**645,365**	585,420
Advances to suppliers		**856,717**	970,415
Other deposits and receivables		**663,636**	1,119,183
Receivables from Wuhan Yinhe	*(i)*	**166,586**	166,586
Current portion of prepaid land lease payments	*17*	**1,177**	1,177
		2,333,481	2,842,781

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

Company

	2013 RMB'000	2012 RMB'000
Prepayments	**1,060**	1,090
Other receivables	**–**	1,192
	1,060	2,282

Note:

(i) On 13 July 2008, the Group entered into a sale and purchase agreement with 武漢銀鶴置業有限公司 ("Wuhan Yinhe Property Co., Ltd." or "Wuhan Yinhe"), an independent third party vendor, to acquire the first to the fourth floors of a commercial property located in Wuhan, the PRC, at a total cash consideration of RMB214,629,000. Pursuant to the agreement, the Group paid an amount of RMB107,315,000, representing 50% of the total purchase consideration, to the vendor in 2008 and the remaining balance was payable upon the completion and handover of the property.

Due to the default of the vendor to fulfil its obligation under the sale and purchase agreement, on 6 July 2009, the Group applied to the Hubei Provincial People's High Court (the "Hubei Court") to freeze the assets of Wuhan Yinhe up to an amount of RMB135,808,000. On 21 July 2009, the court granted an injunction and froze the first, the second and the fourth floors of the property. In July 2010, the Group applied to the Hubei Court to freeze the third floor of the property and the Hubei Court granted an injunction on 23 July 2010.

On 30 July 2009, the Group filed a civil complaint against Wuhan Yinhe with the Hubei Court. On 25 November 2009, the Intermediate People's Court of Huanggang City, Hubei Province, issued the civil judgement and ordered: (i) the sale and purchase agreement and its supplementary agreement are void; (ii) Wuhan Yinhe shall refund the consideration paid by the Group of RMB107,315,000 to the Group; (iii) Wuhan Yinhe shall pay interest of RMB5,638,000 and damages of RMB38,633,000 to the Group; and (iv) Wuhan Yinhe shall pay other damages to the Group in the amount of RMB15,000,000. Wuhan Yinhe did not raise any appeal within the time limit. The management has consulted the Group's PRC legal advisers and consider that the decision is final and binding. The aggregate amount of the compensation in items (iii) and (iv) above of approximately RMB59,271,000 has been recognised as income in the Group's statement of profit or loss for the year ended 31 December 2009.

In February 2010, the Group applied for enforcement of the court decision and the frozen properties are in the process of auction. In 2012, Wuhan Yinhe applied for the retrial of case in order to postpone the auction of the properties but this retrial application was rejected in February 2013 and the original sentence continues to serve effect. Up to 31 December 2013, the Group has not yet received the above repayment and compensation amounting to RMB166,586,000. In the opinion of the management, the Group is able to recover the receivable because the Group's legal rights were secured by the court decision.

23. DUE FROM/TO RELATED COMPANIES

Due from Related Companies

	2013 RMB'000	2012 RMB'000 (Restated)
Management fee receivables from the Non-listed GOME Group *	**64,437**	101,539
Other receivables from the Non-listed GOME Group**	**58,737**	89,403
	123,174	190,942

* The balance mainly represented the management and purchasing service fees due from the Non-listed GOME Group (note 34(a)(ii)). The aforesaid balance was interest-free, unsecured and has no fixed terms of repayment.

Due to Related Companies

	2013 RMB'000	2012 RMB'000 (Restated)
Payables to the Non-listed GOME Group **	**464,142**	234,695

** The balances mainly arose from the transactions with the Non-listed GOME Group (note 34(a)(i)). The aforesaid balances were interest-free, unsecured and have no fixed terms of repayment.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Cash and bank balances	**8,699,676**	6,541,500
Time deposits	**6,722,932**	6,766,093
	15,422,608	13,307,593
Less: Pledged time deposits for bills payable	**(3,975,203)**	(3,772,237)
Pledged time deposits for interest-bearing bank loans	**(2,431,592)**	(2,468,007)
	(6,406,795)	(6,240,244)
Cash and cash equivalents	**9,015,813**	7,067,349

Company

	2013 RMB'000	2012 RMB'000
Cash and bank balances	**389,000**	57,440
Time deposits	**316,137**	525,849
Cash and cash equivalents	**705,137**	583,289

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(continued)*

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

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Cash and bank balances	**8,699,676**	6,541,500
Short term deposits, non-pledged	**316,137**	525,849
Cash and cash equivalents	**9,015,813**	7,067,349

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB14,700,915,000 (31 December 2012: RMB12,750,033,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

25. INTEREST-BEARING BANK LOANS

Group and Company

	2013 RMB'000	2012 RMB'000
Bank loans – secured	**2,683,171**	2,434,374

The bank loans as at 31 December 2013 are denominated in United States dollars ("USD") and Hong Kong dollars("HKD"). The bank loans bear interest at 3-6 month LIBOR plus 1.6% to 1.8% or fixed interest rate of 1.8% and 2.2% per annum.

The bank loans are secured by pledged time deposits (note 24).

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

26. TRADE AND BILLS PAYABLES

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Trade payables	**5,992,325**	6,629,959
Bills payable	**12,085,164**	11,386,787
	18,077,489	18,016,746

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

	2013 RMB'000	2012 RMB'000 (Restated)
Within 3 months	**11,908,864**	11,676,810
3 to 6 months	**5,565,819**	6,130,024
Over 6 months	**602,806**	209,912
	18,077,489	18,016,746

The Group's bills payable is secured by:

(i) the pledge of the Group's time deposits (note 24);

(ii) the pledge of certain of the Group's inventories (note 20);

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

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

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

27. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Customers' deposits	**415,398**	310,817
Deferred revenue *(note)*	**70,128**	61,157
Other payables and accruals	**1,561,283**	1,350,036
	2,046,809	1,722,010

Note:

Deferred revenue refers to the accrual and release of the points in respect of a loyalty points programme operated by the Group. A reconciliation of the deferred revenue is as follows:

	2013 RMB'000	2012 RMB'000 (Restated)
At 1 January	**61,157**	95,032
Arising during the year	**819,376**	319,656
Revenue recognised on utilised points	**(741,649)**	(260,933)
Revenue recognised on expired points	**(68,756)**	(92,598)
At 31 December	**70,128**	61,157

Company

	2013 RMB'000	2012 RMB'000
Other payables and accruals	**7,601**	12,893

28. CROSS CURRENCY SWAP

On 5 March 2012, the Company entered into an offshore USD/RMB cross currency swap contract (the "Swap Contract") with Deutsche Bank AG, London Branch (the "Bank"). The contract was effective from 14 March 2012 to 14 March 2014.

By entering into the contract, the Company paid a notional amount of RMB500,000,000 to the Bank and the Bank paid a notional amount of USD79,340,000 to the Company on 14 March 2012. During the effective period of the Swap Contract, the Company and the Bank exchanged interest generated from the notional amounts at rates agreed in the Swap Contract semi-annually on 14 September and 14 March in each year. On 8 August 2013, the Company and the Bank settled the contract before the date of expiration and the Group recognise a gain of RMB11,002,000 in the consolidated statement of profit or loss.

29. ISSUED CAPITAL

	Number of shares '000	**HK$'000**	**Equivalent to RMB'000**
Authorised:			
Ordinary shares of HK$0.025 each at 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	200,000,000	5,000,000	5,300,000
Issued and fully paid:			
Ordinary shares of HK$0.025 each at 1 January 2012	16,873,556	421,839	421,521
Share options exercised *(note 30)*	1,500	38	30
Ordinary shares of HK$0.025 each at 31 December 2012, 1 January 2013 and 31 December 2013	16,875,056	421,877	421,551

Note:

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

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

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

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

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

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

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

30. SHARE OPTION SCHEME *(continued)*

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

According to the board resolution on 31 August 2012, changes were made to the Scheme including the exercise period of the share options and performance targets to vest the share options.

Upon the modification, the total increase in fair value of the then outstanding share options was approximately RMB6 million. This additional cost would be spread over the period from the date of modification until the vesting date of the modified award, which might not be the same as that of the original award.

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

	2013		2012	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.90**	**133,268**	1.90	158,586
Exercised during the year	**1.90**	**–**	1.90	(1,500)
Forfeited during the year	**1.90**	**(35,316)**	1.90	(23,818)
At 31 December	**1.90**	**97,952**	1.90	133,268

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

2013 Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
73,940	1.90	On or before 15 November 2015
16,008	1.90	Between 15 May 2014 and 15 November 2015
8,004	1.90	Between 15 May 2015 and 15 November 2015
97,952		

30. SHARE OPTION SCHEME *(continued)*

2012 Number of options '000	Exercise price* HK$ per share	Exercise period
80,560	1.90	On or before 15 November 2015
23,060	1.90	Between 15 May 2013 and 15 November 2015
19,765	1.90	Between 15 May 2014 and 15 November 2015
9,883	1.90	Between 15 May 2015 and 15 November 2015
133,268		

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

The share options granted to certain employees were forfeited because of unfulfilled vesting condition. As a result, share option expense of RMB6,763,000 was reversed during the year ended 31 December 2013 (2012 recognised: RMB800,000).

No (2012: 1,500,000) share options were exercised during the year.

At the end of the reporting period, the Company had 97,952,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 97,952,000 additional ordinary shares of the Company and additional share capital of HK$2,449,000 (equivalent to approximately RMB1,925,000) and share premium of HK$183,660,000 (equivalent to approximately RMB144,393,000) (before issue expenses).

At the date of approval of these consolidated financial statements, the Company had 97,638,000 share options outstanding under the Scheme, which represented approximately 0.58% of the Company's shares in issue as at that date.

31. RESERVES

(a) Group

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

Statutory reserves

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

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

31. RESERVES *(continued)*

(b) Company

	Note	Share premium RMB'000	Contributed surplus RMB'000 Note (ii)	Capital reserve RMB'000	Share option reserve RMB'000 Note (iii)	Exchange fluctuation reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000 Note (i)	Total RMB'000
At 1 January 2012		9,456,760	42,849	(657,232)	164,913	(49,695)	(207,516)	8,750,079
Loss for the year and total comprehensive loss for the year		–	–	–	–	–	(186,836)	(186,836)
Redemption of convertible bonds		–	–	(406,582)	–	–	–	(406,582)
Exercise of share options		3,280	–	–	(997)	–	–	2,283
Equity-settled share option arrangements		–	–	–	800	–	–	800
At 31 December 2012 and 1 January 2013		**9,460,040**	**42,849**	**(1,063,814)**	**164,716**	**(49,695)**	**(394,352)**	**8,159,744**
Profit for the year and total comprehensive profit for the year		**–**	**–**	**–**	**–**	**–**	**983,832**	**983,832**
2013 interim dividend paid	32	**–**	**–**	**–**	**–**	**–**	**(94,093)**	**(94,093)**
Equity-settled share option arrangements		**–**	**–**	**–**	**(6,763)**	**–**	**–**	**(6,763)**
Proposed dividends	32	**–**	**–**	**–**	**–**	**–**	**(441,392)**	**(441,392)**
At 31 December 2013		**9,460,040**	**42,849**	**(1,063,814)**	**157,953**	**(49,695)**	**53,995**	**8,601,328**

31. RESERVES *(continued)*

(b) Company *(continued)*

Notes:

(i) The profit attributable to owners of the parent company for the year ended 31 December 2013 dealt with in the financial statements of the Company was approximately RMB983,832,000 (2012: loss of RMB186,836,000).

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

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

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

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

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

32. DIVIDENDS

	2013 **RMB'000**	2012 RMB'000
Interim: Cash dividend of HK$0.7 cents (equivalent to RMB0.56 fen) per ordinary share (2012: Nil) per ordinary share	**94,093**	–
Proposed final: Cash dividend of HK$1.3 cents (equivalent to RMB1.0 fen) (2012: Nil) per ordinary share	**173,649**	–
Proposed special: Scrip dividend of HK$337,501,000 (equivalent to RMB267,743,000) (*note*)	**267,743**	–
	535,485	–

32. DIVIDENDS *(continued)*

The proposed final dividend is subject to the approval from the Company's shareholders at the forthcoming annual general meeting.

Note:

On 20 March 2014, the board of director recommended the payment of a dividend which is payable in cash with a scrip dividend option.

The Company's shareholders may elect to receive the dividend in one of the following ways:

(i) a cash dividend of HK$2.0 cents per share; or

(ii) an allotment of such number of new shares of the Company of HK$0.025 each credited as fully paid and having an aggregate market value equal to, save for adjustment for fractions, the total amount of dividend which the shareholders could elect to receive in cash (the "Maximum Entitlement"); or

(iii) partly new shares not exceeding the Maximum Entitlement and the remainder in cash.

33. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(a) Operating lease arrangements

As lessee

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

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

	2013 **RMB'000**	2012 RMB'000 (Restated)
Within one year	**2,775,770**	2,974,211
In the second to fifth years, inclusive	**7,597,182**	8,754,764
After five years	**2,833,618**	4,048,648
	13,206,570	15,777,623

As defined under IAS 17, a non-cancellable lease is a lease that is cancellable only (a) upon the occurrence of some remote contingencies; (b) with the permission of the lessor; (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

33. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS *(continued)*

(a) Operating lease arrangements *(continued)*

As lessee *(continued)*

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

As lessor

The Group has leased its investment properties (note 13) and entered into commercial property sub-leases on its leased properties under operating lease arrangements. These non-cancellable leases have remaining terms ranging from 1 to 11 years. A majority of the Group's leases include a clause to enable upward revision of the rental charge on a regular basis according to prevailing market conditions. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2013 **RMB'000**	2012 RMB'000 (Restated)
Within one year	**261,987**	241,708
In the second to fifth years, inclusive	**689,211**	585,694
After five years	**272,589**	263,314
	1,223,787	1,090,716

(b) Capital commitments

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

	2013 **RMB'000**	2012 RMB'000
Contracted, but not provided for:		
Construction of property and equipment	**106,660**	61,184
	106,660	61,184

34. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed elsewhere to the financial statements, the Group had the following significant transactions with the related parties.

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

	Notes	2013 RMB'000	2012 RMB'000
Sales to the Non-listed GOME Group*	*(i)*	**417,797**	249,554
Purchases from the Non-listed GOME Group	*(i)*	**733,098**	565,951
Provision of management and purchasing services to the Non-listed GOME Group	*(ii), 5*	**250,000**	250,000
Rental expenses and other expenses to Beijing Xinhengji and the Non-listed GOME Group	*(iii)*	**89,415**	60,527
Service fee to GOME Ruidong (defined in (i) below)	*(iv)*	**3,693**	2,559
Rental income from a related party	*(v)*	**68**	274

* 北京鵬潤投資有限公司 ("Beijing Eagle Investment Co., Ltd."), 北京鵬潤地產控股有限公司 ("Beijing Pengrun Property Co., Ltd." or "Beijing Pengrun Property"), 北京國美電器有限公司 ("Beijing GOME Electrical Appliance Co., Ltd." or "Beijing GOME"), 國美電器零售有限公司 ("GOME Electrical Appliance Retail Co., Ltd.") and their respective subsidiaries of the forgoing companies and 北京國美投資有限公司 are collectively referred to as the "Non-listed GOME Group". GOME Electrical Appliance Retail Co., Ltd. and its subsidiaries are engaged in the retail sale and related operations of electrical appliances and consumer electronic products under the trademark of "GOME Electrical Appliances" in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Non-listed GOME Group are owned by Mr. Wong Kwong Yu ("Mr. Wong"), a substantial shareholder and the former chairman of the Company.

北京新恒基房地產有限公司 ("Beijing Xinhengji Property Co., Ltd." or "Beijing Xinhengji") is owned by a close member of the family of Mr. Wong. In 2007, Beijing Xinhengji assigned ownership of a certain building area to Beijing Pengrun Property and also authorised Beijing Pengrun Property to manage and operate the building area, including receiving and collecting the rentals for this building area. Completion of registration of ownership assignment with the relevant PRC authorities is still pending.

34. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes:

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

On 5 March 2013, the Group terminated the master purchase agreement and the master supply agreement with the Non-listed GOME Group. On the same date, the Group entered into (1) the master merchandise purchase agreement for the supply of general merchandise (including electrical appliances and consumer electronics products) by 北京國美鋭動電子商務有限公司 ("Beijing GOME Ruidong e-Commerce Co., Ltd." or "GOME Ruidong"), of which Mr. Wong has beneficial interest as an equity holder, and the Non-listed GOME Group to the Company's subsidiaries (including Kuba and GOME-on-line) for a period of three years from 1 January 2013 to 31 December 2015, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB5 billion, RMB6.5 billion and RMB8 billion, respectively, and (2) the master merchandise supply agreement for the supply of general merchandise (including electrical appliances and consumer electronics products) by the Group to the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB5 billion, RMB6.5 billion and RMB8 billion (including the transactions with Kubu and GOME-on-line which are defined as connected person under the Listing Rules), respectively.

The transactions constitute continuing connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

(ii) The Group provides management services to the Non-listed GOME Group in respect of the retailing of electrical appliances and consumer electronic products. In addition, the Group negotiates with various suppliers for both the Group and the Non-listed GOME Group on a centralised basis.

On 17 December 2012, (1) the Group entered into a management agreement with the Non-listed GOME Group, pursuant to which the Group agreed to provide and to procure other members of the Group to provide management services for the business of retailing electrical appliances and consumer electronics products to the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015; and (2) the Group entered into purchasing service agreement with the Non-listed GOME Group that the Group agreed to provide and to procure other members of the Group to provide purchasing services for the business of retailing electrical appliances and consumer electronic products to the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015. The annual caps of the management service fee and the purchasing service fee are RMB100 million and RMB150 million, respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

(iii) On 6 December 2013, the Group renewed the lease agreements and supplemental agreements with Beijing Pengrun Property and Beijing GOME with respect to the continuous use of the properties. During the year ended 31 December 2013, the rental expenses incurred by the Group payable to Beijing Pengrun Property and Beijing GOME amounted to RMB74,961,000 (2012: RMB46,073,000) and RMB14,454,000 (2012: RMB14,454,000), respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

34. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: (continued)

(iv) On 5 March 2013, the Group terminated the master agreement with GOME Ruidong. On the same date, the Group entered into (1) logistics services agreements for which GOME Ruidong and the Non-listed GOME Group will provide the logistics services (including warehousing and delivery of general merchandise to end customers) to Kuba and GOME-on-line for a period of three years from 1 January 2013 to 31 December 2015, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB150 million, RMB150 million and RMB150 million, respectively, and (2) the after-sales services agreements for which GOME Ruidong and the Non-listed GOME Group will provide the after-sales services to Kuba and GOME-on-line for a period of three years from 1 January 2013 to 31 December 2015, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB150 million, RMB150 million and RMB150 million, respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

(v) The Group received operating lease rentals from GOME Home Appliances (Hong Kong) Limited, a company owned by Mr. Wong.

The transactions constitute continuing connected transactions but is exempted from all reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

All above related party transactions were determined by mutual agreements between the involved parties after taking into account prevailing market price. The directors of the Company confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

(b) Commitments with related parties

As disclosed in note 34(a)(iii), the Group has rental commitments with Beijing Xinhengji of RMB90,210,000 (2012: RMB78,626,000) under non-cancellable operating leases falling due within one year.

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

	2013	2012
	RMB'000	RMB'000
Fees	**4,099**	4,099
Other emoluments:		
Salaries, allowances and other expense	**9,531**	10,352
Pension scheme contribution	**200**	203
Equity-settled share option expense	**(2,740)**	5,064
	11,090	19,718

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

35. BUSINESS COMBINATION

In 2012, the Dazhong Appliances completed an acquisition of the remaining 69.7% equity interest in 北京歐潤朗諮詢服務有限公司 ("歐潤朗") which then ceased to be an associate of the Group and became a subsidiary of the Group.

The fair values of the identifiable assets and liabilities of 歐潤朗 at the date of acquisition were as follows:

	Note	Fair values recognised on acquisition RMB'000
Property and equipment	*12*	152,196
Cash and bank balances		8,269
Prepayments and other receivables		32,548
Deferred tax liabilities		(14,922)
Total identifiable net assets at fair value		178,091
Gain on bargain purchase		(31,139)
		146,952
Satisfied by:		
Other loan		92,000
Interest receivable on other loan		986
Investment in an associate		53,966
Total		146,952

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash and bank balances acquired	8,269

歐潤朗 did not contribute significant revenue or profit as a subsidiary to the consolidated profit or loss of the Group for the year ended 31 December 2012.

36. CONTINGENCIES

Enforcement action by the Securities and Futures Commission

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

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

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

The SFC was seeking orders that Mr. Wong, Ms. Du Juan and the two companies owned and controlled by them in order to:

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

- pay damages to the Company.

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

High Court continues orders against Mr. Wong and his spouse
The order made on 4 August 2009 was an ex parte interim injunction obtained by the SFC. The Defendants had not yet had a chance to reply to the SFC's allegations.

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

36. CONTINGENCIES *(continued)*

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

High Court continues orders against Mr. Wong and his spouse *(continued)*
According to the enforcement news of the SFC dated 8 September 2009, the High Court ordered the two companies associated with Mr. Wong and Ms. Du Juan, namely Shinning Crown and Shine Group, not to dispose of, deal with or encumber 779,255,678 shares of the Company pending further order.

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

The delivery of these share certificates into the custody of the High Court, together with the orders made on 8 September 2009 prohibiting the disposal of the shares, would preserve them for the purposes of the legal proceedings initiated by the SFC. Accordingly, the interim injunctions against Shinning Crown and Shine Group were discharged. However, the interim injunction remained effective against Mr. Wong and Ms. Du Juan. The interim injunction against Ms. Du Juan was subsequently discharged as stated below.

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

High Court varies order against Ms. Du Juan
The High Court varied the interim injunction order in relation to the proceedings commenced by the SFC involving the Allegations against Mr. Wong and his spouse on 3 March 2011. Following undertakings to the High Court by Shinning Crown and Shine Group, the SFC consented to the discharge of the interim injunction order made against Ms. Du Juan. The undertakings ensure that HK$1,655,167,000 in shares of the Company as represented by the share certificates that have been deposited with the High Court by Shinning Crown and Shine Group in compliance with the High Court's interim injunction order will also irrevocably and unconditionally be used and applied to meet any liability of Ms. Du Juan, if such liability is imposed by the High Court in these proceedings. The variation of the interim injunction order has no effect on the freezing order against Mr. Wong.

36. CONTINGENCIES *(continued)*

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

Resolution of the Allegation by Mr. Wong, Ms. Du Juan, Shinning Crown, Shine Group and the SFC
The Company has been informed that, as a result of the mediation between the SFC and the Defendants, the SFC and the Defendants have reached an agreement to resolve the legal proceedings commenced by the SFC involving the Allegations subject to certain conditions being fulfilled by the Defendants, including: (i) requisitioning by Shinning Crown and Shine Group of a shareholders' meeting and the ratification by independent shareholders (other than Mr. Wong, Ms. Du Juan, Shinning Crown, Shine Group and their respective associates) of the share repurchases conducted by the Company between 22 January 2008 and 5 February 2008 involving approximately 129.8 million shares of the Company (of which approximately 70% were originally held by or for Mr. Wong) (the "Share Repurchases") and certain breaches of duties to the Company by Mr. Wong and Ms. Du Juan (the "Breaches of Duties"); and (ii) the payment of compensation in the amount of HK$420,608,765.75 in aggregate by Mr. Wong and Ms. Du Juan to the Company in order for Mr. Wong, Ms. Du Juan, Shinning Crown, Shine Group and any other persons to be released from all liabilities and claims in relation to the Share Repurchases and the Breaches of Duties (the "Payment").

In addition, Mr. Wong and Ms. Du Juan have also agreed to pay (i) all costs involved in convening and holding the special general meeting and (ii) the SFC's legal costs.

On 17 March 2014, the Company received a requisition letter from Shinning Crown and Shine Group requesting the Board to convene a special general meeting for the purposes of considering the requisitioned resolution to approve, confirm and ratify the Share Repurchases and the Breaches of Duties and to confirm and approve the acceptance of the Payment by Mr. Wong and Ms. Du Juan to the Company. In response to the requisition, the Board will convene a special general meeting of the Company on 17 April 2014. If the requisitioned resolution is passed, the SFC together with the Defendants will apply to the High Court for a joint order for the discharge of the injunction against Mr. Wong, release of all undertakings of Shinning Crown and Shine Group and release of the Defendants' shares in the Company held in the High Court.

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

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

2013

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	135,000	135,000
Trade and bills receivables	245,492	–	245,492
Financial assets included in prepayments, deposits and other receivables	830,222	–	830,222
Due from related companies	123,174	–	123,174
Pledged deposits	6,406,795	–	6,406,795
Cash and cash equivalents	9,015,813	–	9,015,813
	16,621,496	135,000	16,756,496

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Interest-bearing bank loans	2,683,171	2,683,171
Trade and bills payables	18,077,489	18,077,489
Financial liabilities included in customers' deposits, other payables and accruals	549,634	549,634
Due to related companies	464,142	464,142
	21,774,436	21,774,436

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group *(continued)*

2012

Financial assets

	Loans and receivables RMB'000 (Restated)	Available-for-sale financial assets RMB'000	Total RMB'000 (Restated)
Other investments	–	124,200	124,200
Trade and bills receivables	203,070	–	203,070
Financial assets included in prepayments, deposits and other receivables	1,285,769	–	1,285,769
Due from related companies	190,942	–	190,942
Pledged deposits	6,240,244	–	6,240,244
Cash and cash equivalents	7,067,349	–	7,067,349
	14,987,374	124,200	15,111,574

Financial liabilities

	Financial liabilities at amortised cost RMB'000 (Restated)	Financial liabilities at fair value through profit or loss RMB'000	Total RMB'000 (Restated)
Interest-bearing bank loans	2,434,374	–	2,434,374
Trade and bills payables	18,016,746	–	18,016,746
Financial liabilities included in customers' deposits, other payables and accruals	862,868	–	862,868
Due to related companies	234,695	–	234,695
Derivative liability related to a cross currency swap	–	4,953	4,953
	21,548,683	4,953	21,553,636

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

Financial assets

	2013	2012
	Loans and receivables	Loans and receivables
	RMB'000	RMB'000
Amounts due from subsidiaries	**6,718,389**	5,738,285
Financial assets included in prepayments and other receivables	**–**	1,192
Cash and cash equivalents	**705,137**	583,289
	7,423,526	6,322,766

Financial liabilities

2013

	Financial liabilities at amortised cost	**Total**
	RMB'000	**RMB'000**
Interest-bearing bank loans	**2,683,171**	**2,683,171**
Amounts due to subsidiaries	**659,178**	**659,178**
Financial liabilities included in other payables and accruals	**4,267**	**4,267**
	3,346,616	**3,346,616**

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company *(continued)*

2012

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Total RMB'000
Interest-bearing bank loans	2,434,374	–	2,434,374
Amounts due to subsidiaries	679,976	–	679,976
Derivative liability related to a cross currency swap	–	4,953	4,953
Financial liabilities included in other payables and accruals	7,280	–	7,280
	3,121,630	4,953	3,126,583

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Group

	Carrying amounts		Fair values	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Financial assets				
Other investments	**135,000**	124,200	**135,000**	124,200
	135,000	124,200	**135,000**	124,200
Financial liabilities				
Derivative liability related to a cross currency swap	**–**	4,953	**–**	4,953
	–	4,953	**–**	4,953

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Company

	Carrying amounts		Fair values	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Derivative liability related to a cross currency swap	–	4,953	–	4,953
	–	4,953	–	4,953

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related companies and interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of listed equity investments are based on quoted market prices. The fair value of the derivative liability related to a cross currency swap was estimated using a valuation technique based on assumptions that are significantly supported by unobservable market data.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

Group

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active market (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Other investments:				
Equity investments	**135,000**	**–**	**–**	**135,000**

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Other investments:				
Equity investments	124,200	–	–	124,200

During the year ended 31 December 2013, there were no transfers into or out of Level 1 and Level 2, and no transfers into or out of Level 3.

The Company did not have any financial assets measured at fair value as at 31 December 2013.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Liabilities measured at fair value:

As at 31 December 2012

Group and Company

	Fair value measurement using			
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative liability related to a cross currency swap	–	–	4,953	4,953

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2013.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than other investments, comprise cash and cash equivalent, pledged deposits and interest-bearing bank loans. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, other receivables and payables, and amounts due from/to related companies, which arise directly from its operations.

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

Interest rate risk

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

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As at 31 December 2013, the Group had bank borrowings of RMB2,683,171,000 with floating interest rates (2012: RMB2,434,374,000).

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate with all other variables held constant, of the Group's profit/loss before tax (due to changes in finance costs).

	Increase/ (decrease) in interest rate	**Increase/ (decrease) in profit before tax RMB'000**
2013		
If interest rate increases by	**5%**	**3,028**
If interest rate decreases by	**(5%)**	**(3,028)**

	Increase/ (decrease) in interest rate	Increase/ (decrease) in loss before tax RMB'000
2012		
If interest rate increases by	5%	(2,058)
If interest rate decreases by	(5%)	2,058

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

As at 31 December 2013, the Group had cash and bank deposits of RMB721,693,000 (2012: RMB557,560,000) and interest-bearing of bank loans of RMB2,683,171,000 (2012: RMB2,434,374,000), which were denominated in foreign currencies including USD and the Hong Kong dollar.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate of USD and the Hong Kong dollar with all other variables held constant, of the Group's profit or loss before tax (due to changes in the fair values of monetary assets and liabilities). Other components of equity would not change.

	Increase/ (decrease) in foreign currency rate	**Increase/ (decrease) in profit before tax RMB'000**
2013		
If RMB weakens against USD	**5%**	**(100,514)**
If RMB strengthens against USD	**(5%)**	**100,514**
If RMB weakens against the Hong Kong dollar	**5%**	**2,440**
If RMB strengthens against the Hong Kong dollar	**(5%)**	**(2,440)**

	Increase/ (decrease) in foreign currency rate	(Increase)/ decrease in loss before tax RMB'000
2012		
If RMB weakens against USD	5%	(100,871)
If RMB strengthens against USD	(5%)	100,871
If RMB weakens against the Hong Kong dollar	5%	7,030
If RMB strengthens against the Hong Kong dollar	(5%)	(7,030)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group trades on credit only with third parties who have an established trading history with the Group and who have no history of default. It is the Group's policy that new customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 21 to the financial statements.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, pledged deposits, other receivables and amounts due from related companies, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial instruments. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different geographical regions.

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of trade and bills payables and interest-bearing bank loans. As at 31 December 2013, the Group had trade and bills payables amounting to RMB18,077,489,000 (31 December 2012: RMB18,016,746,000). In addition, as at 31 December 2013, the Group had interest-bearing bank loans amounting to RMB2,683,171,000 (31 December 2012: RMB2,434,374,000) which will mature within 12 months. The management has reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period, based on contractual undiscounted payments.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

Group

	Within 1 year RMB'000	Total RMB'000
2013		
Interest-bearing bank loans and interest payables	**2,687,438**	**2,687,438**
Trade and bills payables	**18,077,489**	**18,077,489**
Financial liabilities included in customers' deposits and other payables	**545,367**	**545,367**
Due to related companies	**464,142**	**464,142**
	21,774,436	**21,774,436**

	Within 1 year RMB'000 (Restated)	1 to 2 years RMB'000	Total RMB'000 (Restated)
2012			
Interest-bearing bank loans and interest payables	2,441,654	–	2,441,654
Trade and bills payables	18,016,746	–	18,016,746
Financial liabilities included in customers' deposits and other payables	855,588	–	855,588
Due to related companies	234,695	–	234,695
Cross currency swap	–	498,691	498,691
	21,548,683	498,691	22,047,374

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

Company

	Within 1 year RMB'000	Total RMB'000
2013		
Interest-bearing bank loans and interest payables	**2,687,438**	**2,687,438**
Amounts due to subsidiaries	**659,178**	**659,178**
	3,346,616	**3,346,616**

	Within 1 year RMB'000	1 to 2 years RMB'000	Total RMB'000
2012			
Interest-bearing bank loans and interest payables	2,441,654	–	2,441,654
Cross currency swap	–	498,691	498,691
Amounts due to subsidiaries	679,976	–	679,976
	3,121,630	498,691	3,620,321

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from other investments (note 16) as at 31 December 2013. The Group's listed investments are valued at market price as at 31 December 2013 and 31 December 2012.

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

	31 December 2013	**High/low 2013**	31 December 2012	High/low 2012
Shanghai – A Share Index	**2,116**	**2,434/ 1,950**	2,269	2,478/ 1,949

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the other equity investments, the impact is deemed to be on the other investment revaluation reserve and no account is given for factors such as impairment which might impact on the statement of profit or loss.

	Carrying amount of equity investments RMB'000	**Increase/ decrease in profit/loss before tax RMB'000**	**Increase/ decrease in equity* RMB'000**
2013			
Investments listed in:			
Shanghai – Available-for-sale	**135,000**	**–**	**13,500**
2012			
Investments listed in:			
Shanghai – Available-for-sale	124,200	–	12,420

* Excluding retained earnings

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

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

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

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

	2013	2012
	RMB'000	RMB'000
Interest-bearing bank loans	**2,683,171**	2,434,374
Due to related companies	**464,142**	234,695
Trade and bills payables	**18,077,489**	18,016,746
Customers' deposits, other payables and accruals	**2,046,809**	1,722,010
Less: Cash and cash equivalents	**(9,015,813)**	(7,067,349)
Pledged deposits	**(6,406,795)**	(6,240,244)
Net debt	**7,849,003**	9,100,232
Equity attributable to owners of the parent company	**15,927,254**	15,064,348
Total capital	**15,927,254**	15,064,348
Capital and net debt	**23,776,257**	24,164,580
Gearing ratio	**33%**	38%

40. EVENTS AFTER THE REPORTING PERIOD

On 20 March 2014, the board of director recommended a final dividend and a special dividend (of which shareholders being given an option to elect to receive such special dividend all in new shares or partly in new shares and partly in cash). The final dividend is subject to the approval from the Company's shareholders at the forthcoming annual general meeting.

As disclosed in note 36 to the financial statements, the Company received a requisition letter from Shinning Crown and Shine Group on 17 March 2014, requesting the Board to convene a special general meeting for the approval, confirmation and ratification by the Independent Shareholders of the Share Repurchases and the Breaches of Duties, and for the approval and confirmation of the acceptance of the Payment. The special general meeting is scheduled to be held on 17 April 2014.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 20 March 2014.

CORPORATE INFORMATION

DIRECTORS

Executive Director

ZOU Xiao Chun

Non-executive Directors

ZHANG Da Zhong *(Chairman)*
ZHU Jia
WANG Li Hong
CHEUNG Leong

Independent Non-executive Directors

SZE Tsai Ping, Michael
CHAN Yuk Sang
LEE Kong Wai, Conway
NG Wai Hung
LIU Hong Yu

COMPANY SECRETARY

SZETO King Pui, Albert

AUTHORISED REPRESENTATIVES

ZOU Xiao Chun
SZETO King Pui, Albert

PRINCIPAL BANKERS

China Construction Bank
CITIC Bank
Industrial Bank
China Merchant Bank
Bank of Shanghai

AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE

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

PRINCIPAL SHARE REGISTRAR IN BERMUDA

MUFG Fund Services
(Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Abacus Limited
Level 22 Hopewell Centre
183 Queen's Road East
Hong Kong

国美电器

GOME ELECTRICAL APPLIANCES HOLDING LIMITED

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