Stock Code : 493

Annual Report 2014

DEVELOP TOTAL RETAIL COMMUNITY

Content

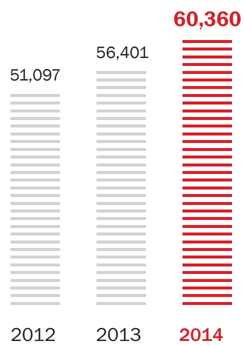
GOME AT A GLANCE

"GOME is a leading Omni-Channel 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

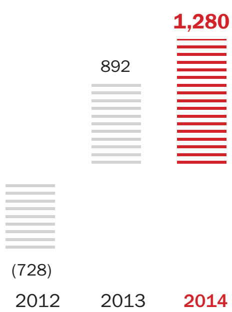
- During the reporting period, sales revenue of the Group was approximately RMB60,360 million, increased by 7.02% as compared with the corresponding period last year
- Consolidated gross profit margin increased from 18.36% for the previous year to 18.48%
- Profit attributable to owners of the parent was approximately RMB1,280 million, increased significantly by 43.50%
- Basic earnings per share were RMB7.6 fen
- The Board proposed a final dividend of HK$1.80 cents per ordinary share.

REVENUE
(RMB million)

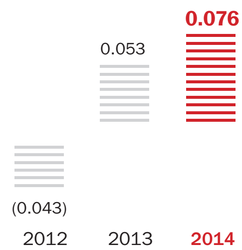


CONSOLIDATED GROSS PROFIT MARGIN*

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



BASIC EARNINGS/(LOSS) PER SHARE
(RMB)



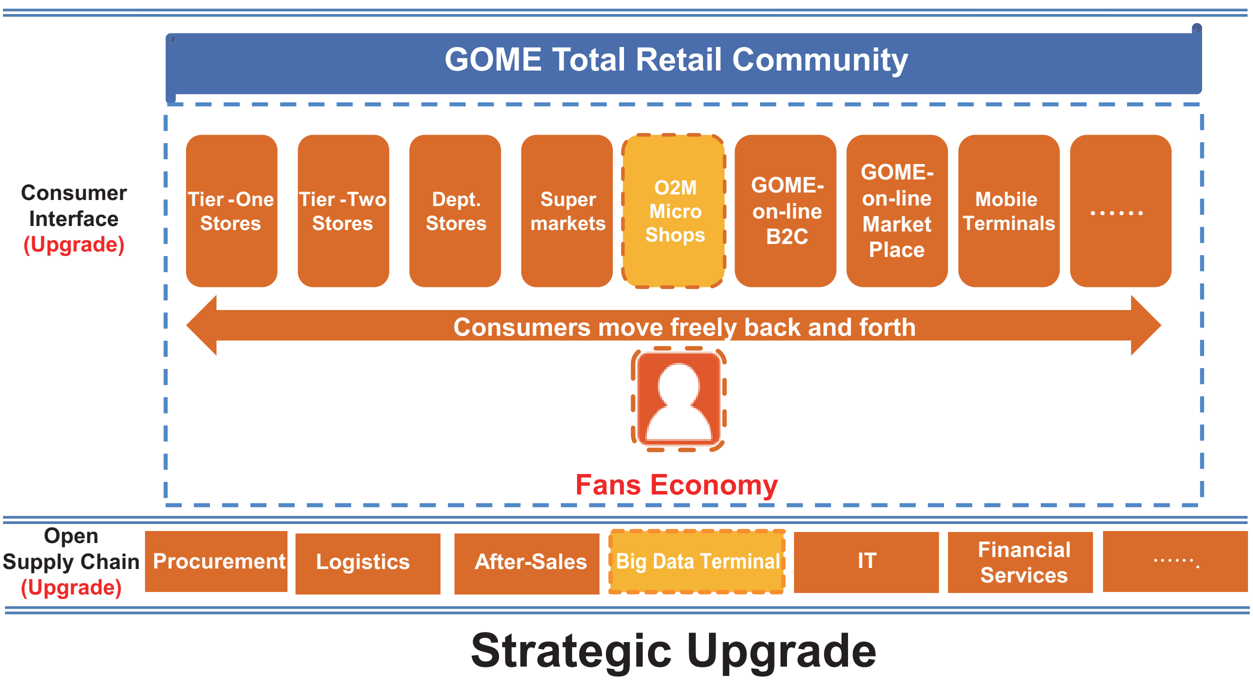
* Consolidated gross profit margin = (gross profit + other income and gains)/revenue

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000	Year ended 31 December 2012 RMB'000	Year ended 31 December 2011 RMB'000	Year ended 31 December 2010 RMB'000
Revenue	60,359,843	56,400,662	51,097,100	64,466,993	55,977,046
Profit/(Loss) attributable to owners of the parent	1,279,770	892,475	(728,498)	1,859,226	1,984,373
Total assets	44,076,673	39,323,985	37,712,723	38,745,492	38,208,693
Total liabilities	28,042,155	24,006,527	23,043,141	22,780,045	23,445,712
Non-controlling interests	(871,398)	(609,796)	(394,766)	(30,469)	–
Net assets	16,034,518	15,317,458	14,669,582	15,965,447	14,762,981

BLUEPRINT OF GOME TOTAL RETAIL

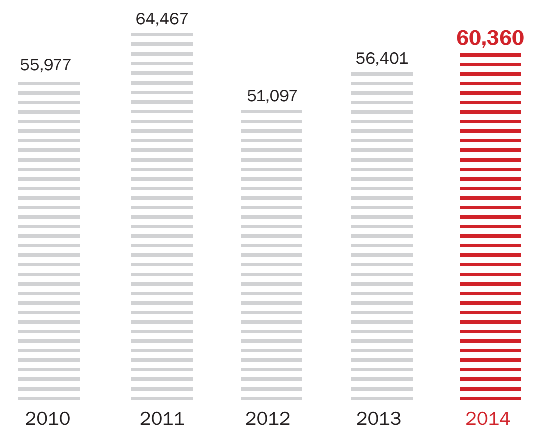
GOME upgraded its Omni-Channel Experience both in online and offline channels to a seamless Total Retail Experience, consumers can move freely across the whole shopping scenarios in the physical stores, e-commerce, mobile terminals, micro shops and joint operation stores, building a community with more than 100 million of consumers.



FINANCIAL AND OPERATIONAL HIGHLIGHTS

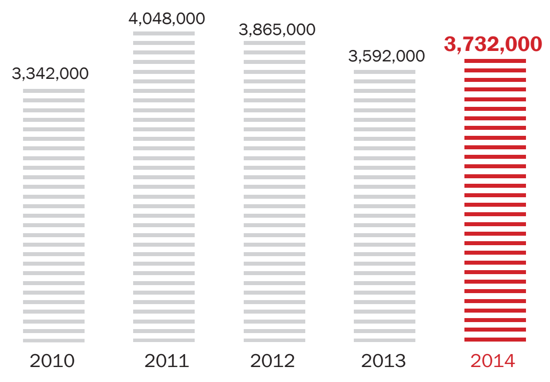
REVENUE

(RMB million)



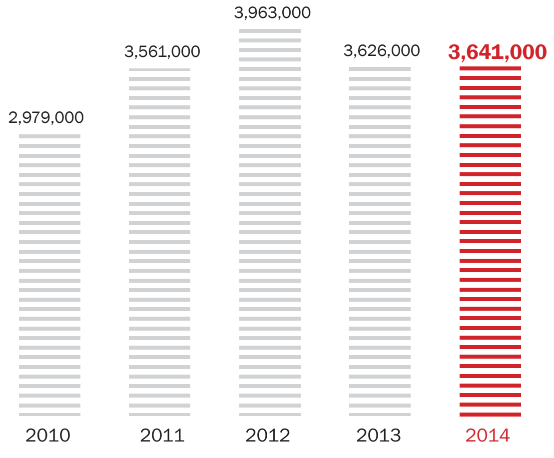
TOTAL SALES AREA AT YEAR END

(sq.m)

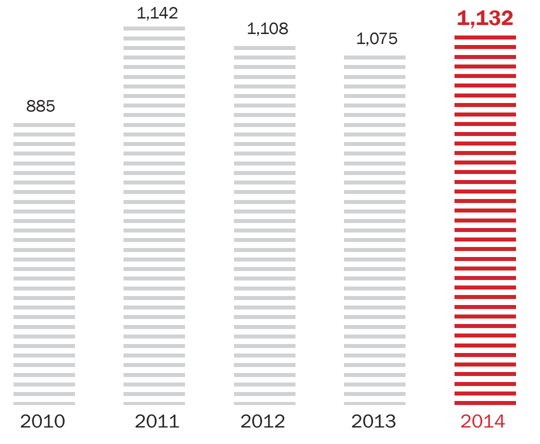


WEIGHTED AVERAGE SALES AREA

(sq.m)



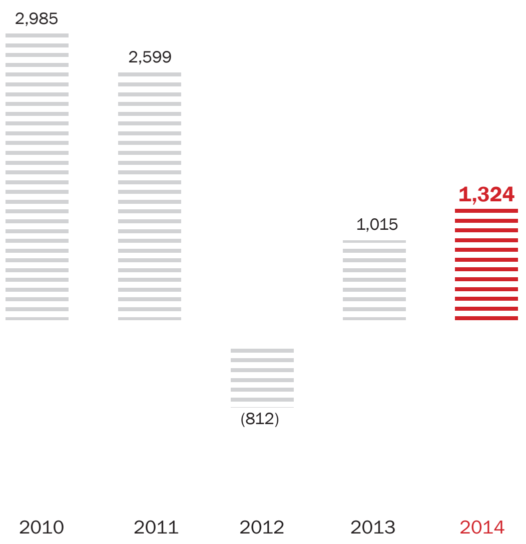
NUMBER OF STORES AT YEAR END



FINANCIAL AND OPERATIONAL HIGHLIGHTS

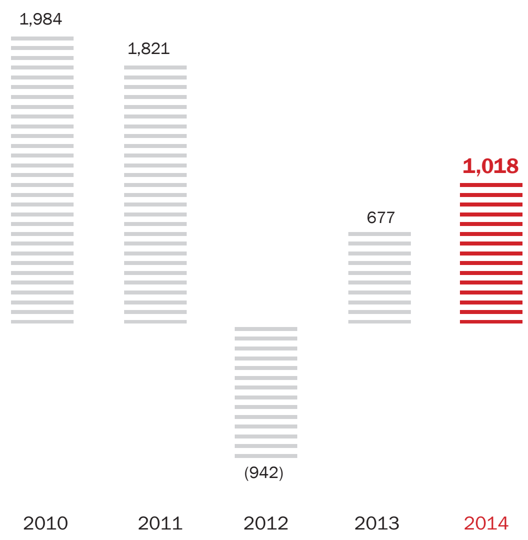
PROFIT/(LOSS) FROM OPERATING ACTIVITIES

(RMB million)



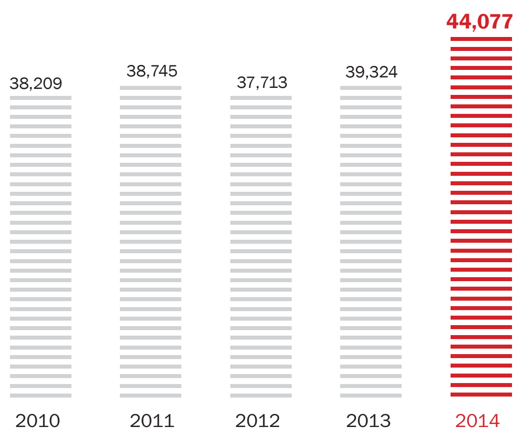
PROFIT/(LOSS) FOR THE YEAR

(RMB million)



TOTAL ASSETS

(RMB million)



NET ASSETS

(RMB million)

TOTAL RETAIL COMMUNITY

The infrastructure under the guidance of the Open Omni-channel Retailer strategy has been completed which in turn paved the way for the Group's remarkable results. In 2015, the Group will strive to build a Total Retail Community to become the best total retail platform in China covering consumer groups of all ages, channels and markets. This will create greater value to the shareholders, suppliers and consumers of GOME.

CHAIRMAN'S STATEMENT

With the onset of the mobile internet era, the development of consumer behavior is trending towards a focus on the individual, with fragmented consumption time, diversified shopping scenarios, and less distinction between channels. The home appliance industry is gradually moving towards a more high-end, intelligent and web-based development stage, with technological innovation and home appliance replacement cycles stimulating consumer demand.

Dear Shareholders,

In the constantly changing and evolving digital world, the retail industry is facing stiff competition and undergoing revolutionary changes. By adhering, in its efforts to reform, to the principle of returning to its core retail business as it aims to fulfill customer needs in products and services, GOME achieved impressive results under the Open Omni-Channel Retailer business strategy in 2014, with core financial indicators exceeding the industry average for eight consecutive quarters. The satisfactory results testify that GOME's business transformation has taken effect.

As the world advances further, the development of a modern economy as well as the application of information and communication technologies have exerted great influence over people's living habits and consumption behavior. With internet penetration and mobile device usage continuing to grow, retail businesses are entering a new era that is more diversified and dynamic. In the new retail era, consumer behaviors are fragmented as people look to shop at anytime and anywhere. In view of the shift in China's national economic development from "speed" to "quality", retail-oriented corporations must accelerate their business transformation to cope with the changes in the market and to satisfy customer needs. In 2014, GOME undertook strategies to transform itself into an Open Omni-Channel Retailer with an open supply chain at its core. Through the integration and coordinated development of the procurement, logistics, information technology and financial services platform of the Group's supply chain, GOME has built an Open Omni-Channel platform encompassing "online + offline + mobile terminal + other social platforms", outlining a unique strategy to drive business transformation.

Adhering to its Open Omni-Channel Retailer business strategy, GOME has developed extensive synergies and cooperation between its online and offline businesses. In its offline business, in addition to its first-tier and second-tier markets, GOME also promotes cooperation with department stores, supermarkets, general merchandise stores and local chain stores. In its online business, apart from GOME's online self-owned operation business and marketplace business, by synthesizing resources through the innovative integration of online, offline and mobile terminal business models, GOME provides to consumers an excellent experience throughout the shopping process. The new Open Omni-Channel operation model is a boost to the integration of the channels, builds a community-based and open supply chain value platform, allows us to share multiple resources with consumers, suppliers and online marketplace and to grow together with our partners.

Looking ahead, we have full confidence in GOME. GOME will fully step up its Omni-Channel strategy to Total Retail strategy, focusing on customer needs to quicken the integration of the physical and virtual shopping scenarios. Leveraging its strong back-end supply chain and store network with sustainable profitability, the Group strives to develop its e-commence platform and mobile micro shops. This is to drive its total retail Fan Economy encompassing online, offline and via mobile terminals, under its goal to build a GOME community with more than 100 million customers. The Group believes that the retail industry's strongest growth prospects lie in the ultimate shopping experience, which combines the physical and virtual realms.

As for internal management, GOME will uphold the corporate principle of "promoting equality at work for staff" at all levels and to emphasize staff responsibilities in vertical management, leadership, supervisory roles, etc. By making adjustments to the Group's human resources and organizational structure, enhancing employee training and strengthening management trainee program, GOME creates a low cost, high productivity management system and a more innovative internal management platform to meet the development needs of GOME.

I hereby express my sincere gratitude to our staff for their diligence and hard work and to different parties in society for their support. We will continue to strive for the benefit of our shareholders, staff and customers while pursuing the sustainable development of the Group in long term. I am very confident about leading GOME in maintaining rapid and stable business growth, overcoming all challenges and achieving the goal of becoming the most valuable and competitive total retail platform in China.

Zhang Da Zhong
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

> "During the reporting period, the profit attributable to the owners of the parent increased substantially by 43.50% from RMB892 million for the corresponding period last year to approximately RMB1,280 million. Basic earnings per share were RMB7.6 fen, as compared with RMB5.3 fen for the corresponding period last year."

OVERVIEW

During the reporting period, GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (collectively known as the "Group" or "GOME") spared no effort in pursuing its corporate strategic goal of becoming an Open Omni-channel Retailer. Amid the volatile economic environment and evolution of new business models, GOME shifted its focus back to retailing, upholding its cautions but pro-active revolutionary principle at all times, to meet customers' demands for products and services. Leveraging on the Group's core value platform of procurement, logistics, information technology, financial services and after sales services, GOME has been developing a shared terminal platform of "offline + online + mobile terminals + other social channels" in a more open and integrated business model with mutual benefits, and has achieved outstanding results.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Group recorded sales revenue of approximately RMB60,360 million, up 7.02% when compared with RMB56,401 million for the corresponding period last year. The performance of the physical stores and the e-commerce platform has further improved with sales revenue from comparable stores increased by 4.82% while the total e-commerce transaction amount (including transaction amount from the marketplace) increased by 84.41%. Meanwhile, the Group's consolidated gross profit margin remained at a relatively high level of 18.48%.

The Group also tightened its control of operating expenses, in particular in rental and salaries which were maintained at a level below the industry average. The Group's operating expense ratio fell from 16.56% last year to 16.29% this year. Due to higher sales revenue and consolidated gross profit margin, and effective control of its operating expenses, the Group's profit attributable to the owners of the parent surged from RMB892 million for the corresponding period last year to approximately RMB1,280 million, representing a significant increase of 43.50%. In view of this, the board of directors of the Company (the "Board") recommended a final dividend of HK$1.80 cents (equivalent to RMB1.38 fen) per ordinary share in accordance with existing dividend policy of the Company.

Looking ahead, the Group will continue to fully leverage on its competitive advantage on integrated supply value chain and strengthen integration across various platforms for both online and offline users, establish its total retail community with a commitment to offering excellent customer experiences, professional services and an extensive range of products.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY ENVIRONMENT

Globally, the pace of economic development varied across countries in 2014. While growth in developing countries had flattened out due to downward pressure on the economy, the recovery of the US economy gained momentum as it shook off the impact of the financial crisis and deflation.

In terms of the domestic economy, despite the waning effect of government stimulus measures in recent years, the Chinese government managed to maintain the GDP growth at 7.4% through the timely and effective implementation of macro-control policies. This ensured the stable growth of the national economy. On the development of the retail industry, sales growth of the retail enterprises showed signs of levelling off in the same period.

Throughout 2014, the Chinese economy grew in a slow and steady manner on the whole. Amid the flat consumer price level, the Group faced the challenges of slowing market growth, escalating rents and emerging competition from e-commerce. In response, the Group proactively took corresponding initiatives to strengthen its Omni-Channel business model, leveraged its strength in the integrated supply chain and accelerate the integration between offline physical stores and online e-commerce business, so as to expand its overall operating capacity. By launching a series of strategic measures, the Group achieved a stable and sustainable growth.

GROWTH POTENTIAL

Currently, the focus of the Chinese government's national development policies is to maintain growth at a medium-to-high rate, while advancing to a middle to high level of quality development. The adoption of such policies aims to strengthen residents' purchasing power by raising the urban employment rate and stimulating growth in imports and exports. Meanwhile, the government's efforts in urbanization, which involve the construction of public housing and transformation of shanty towns, as well as land reforms in third and fourth-tier markets, together with the interest rate cut by the People's Bank of China, are expected to generate rigid consumer demand.

The home appliance industry is gradually moving towards a more high-end, intelligent and web-based development stage, with technological innovation and home appliance replacement cycles stimulating consumer demand. At the same time, the government's Internet Plus action plan promotes the integration between mobile Internet, cloud computing, big data, Internet of Things and modern manufacturing industry, and drives the healthy development of e-commerce, Industrial Internet Applications and Internet finance.

In view of the prevailing market conditions, the Group will endeavor to transform itself from the Omni-Channel Retailer to Total Retail Experience Platform and establish a Total Retail Community that fully caters to customers' needs in every aspect.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Omni-Channel Interface

In 2014, the Group put extra effort in its store innovation, store network expansion, strengthening joint operations with supermarkets and department stores, as well as accelerating e-commerce development. This was to attain our strategic goal of becoming an Open Omni-Channel Retailer.

(1) Renovating and Digitizing Physical Stores

The Group achieved greater profitability at its stores in 2014 through the provision of free Wi-Fi at flagship stores and store revamp projects. The Group also further enriched its product mix, both in terms of brands and types, with a special focus on the display of bestsellers. To improve customers' in-store shopping experience, the Group set out to establish its Apple, Samsung and Huawei product experience at the forefront of market promotion and penetration of other 3C products (including computer, telecommunication and digital products), in order to attract more young customers. In addition, the Group offered electronic kitchenware demonstration to provide customers with ultimate first-hand experiences, which helps to attract a significantly number of customers with different needs.

WIFI coverage to facilitate price comparison

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Group renovated a total of 100 flagship stores. At the same time, the growth of sales revenue of comparable stores reached 4.82%.

(2) Expanding Store Network

In 2014, the Group implemented measures that primarily focused on store network expansion in the second-tier market. These measures not only delivered steady profits from stores within the market, but also accelerated the expansion of local store networks. The Group undertook renovation of flagship stores with the principal goal of setting up core stores in commercial districts. At the same time, it stepped up efforts to consolidate its network in the second-tier market by opening satellite stores around flagship stores. During the year, the Group refined its strategy and operation of product coverage and penetration, best-selling products and development of professional management staff in the second-tier market. In doing so, it strengthened the Group's logistics distribution capabilities in the second-tier market, helping the Group to cater to customers' needs on every aspect more effectively.

During the reporting period, the Group opened a total of 78 new stores and closed down 31 stores in the second-tier market, representing a net increase of 47 stores and entered into 13 new cities.

During the reporting period, the Group opened a total of 145 new stores in first and second-tier markets and closed down 88 underperforming stores, representing a net growth of 57 stores and a total store count of 1,132 by the end of

THE NATIONWIDE RETAIL NETWORK OF THE GROUP

As at 31 December 2014

With the inclusion of the 556 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 1,688 and spanned 434 large- and medium-sized cities.

MANAGEMENT DISCUSSION AND ANALYSIS

Development of Network

	Group total	GOME	China Paradise	Dazhong	CellStar
Flagship stores	**256**	185	40	31	–
Standard stores	**335**	282	38	15	–
Specialized stores	**541**	413	81	8	39
Total	**1,132**	**880**	**159**	**54**	**39**
Among them:					
First-tier market	**693**	502	108	49	34
Second-tier market	**439**	378	51	5	5
Net increase in store number	**57**	58	4	(2)	(3)
Number of stores opened	**145**	**117**	**25**	**2**	**1**
Among them:					
First-tier market	**67**	54	12	1	–
Second-tier market	**78**	63	13	1	1
Number of cities accessed	**273**	**233**	**60**	**1**	**6**
Among them:					
First-tier cities	**26**	20	9	1	1
Second-tier cities	**247**	213	51	–	5
Number of cities newly assessed	**13**	12	1	–	–

List of stores

Region	Flagship stores	Standard stores	Specialized stores	Total
Beijing	51	33	16	100
Shanghai	32	13	19	64
Tianjin	15	18	7	40
Chengdu	15	28	24	67
Chongqing	12	20	19	51
Xi'an	18	16	55	89
Shenyang	12	9	7	28
Qingdao	8	15	11	34
Jinan	6	5	17	28
Shenzhen	19	22	35	76
Dongguan	1	12	11	24
Guangzhou	17	30	62	109
Foshan	6	11	20	37
Wuhan	7	18	32	57
Kunming	5	6	22	33
Fuzhou	6	9	28	43
Xiamen	3	10	28	41
Henan	5	16	25	46
Nanjing	2	15	21	38
Wuxi	1	2	11	14
Changzhou	2	7	6	15
Suzhou	4	4	16	24
Hefei	2	7	9	18
Xuzhou	1	4	15	20
Tangshan	1	1	5	7
Lanzhou	5	3	13	21
Wenzhou	–	1	7	8
Total	**256**	**335**	**541**	**1,132**

MANAGEMENT DISCUSSION AND ANALYSIS

the year. Following a series of adjustments, the Group's rental to sales ratio fell from 5.34% for the corresponding period in 2013 to the current level of 5.17%. The Group rented a total of 1,101 stores, among which 166, 136 and 112 lease agreements will expire in 2015, 2016 and 2017, respectively. During the reporting period, the Group had 31 self-owned stores with a total area of approximately 207,000 sq.m., accounting for approximately 5.55% of its total operating area. The self-owned properties are mainly in the major commercial districts of first-tier cities such as Beijing and Shanghai.

In addition, by the end of 2014, including the 556 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 1,688, spanning 434 large-and medium-sized cities.

(3) Stepping up joint operation with supermarkets and department stores

The rapid expansion of the Group's sales network was made possible by its joint operation with supermarkets and department stores nationwide, which enhanced customers' accessibility to GOME's high-quality products. During the reporting period, GOME successfully partnered Beijing Wumart and Shanghai Lianhua Supermarket and jointly operated 154 supermarkets and department stores.

In addition, the Group also made further improvements to the joint operated stores by standardizing exhibition showcase, product selection and display layout, enriching product offerings and developing marketing plans with these stores to fully cater to customers' needs.

MANAGEMENT
DISCUSSION AND ANALYSIS

(4) Accelerating GOME-on-line Development

In 2014, the Group completed the set-up of the interface platform, value platform and back-end platform for its online business: GOME-on-line. The Group was committed to developing direct sales of home appliances and platform sales of non-home appliances. With an eye on these goals, it continued to pursue the profitable Omni-Channel business model. By focusing on the expansion of all product mix, price competitiveness and customer experience, the Group was able to share various online and offline resources including supply chain, logistic services, as well as the analysis and application of big data.

Leveraging on the Group's ample supply chain resources and self-developed logistic team, GOME-on-line focused on boosting the delivery capacity for small-sized products. The combination of online and offline inventory and logistic resources allowed the networks of logistic and installation services to cover a wide region across China, so that GOME-on-line could provide "Three deliveries/day, precise delivery and installation with delivery" services, through which it gained a competitive edge differentiating it from competitors.

In addition, through products came with Apps pre-installed by stores and suppliers that drove the sign-up rate for mobile terminal members on GOME-on-line, the Group enabled the sharing of online and offline membership data to allow offline members to redeem their reward points online, this reinforced user loyalty. The exchange of information also facilitated mobile and social marketing, hence boosting transaction volume through the mobile terminals.

In 2014, the total GMV of GOME-on-line (including transaction amount from the marketplace) increased by 84.41% over the corresponding period last year.

Open Supply Chain Platform

In 2014, the Group achieved satisfactory results through optimizing and upgrading the open supply chain platform, as well as by driving steady improvements in big data terminal, procurement, logistics, after-sale services, information system and financial services.

(1) Upgrading Big Data Terminal

Data analysis generated from the Group's big data terminal could be used to upgrade and coordinate the value platforms such as procurement, logistics, financial services and after-sales services. Based on the massive transaction data, the Group is able to categorize the customers based on their demands, analyze shopping behavior, perform targeted marketing thus enable customers to shop freely on the total retail value platform.

(2) Enhancing supply chain efficiency

To remain competitive in today's internet era, the Group relentlessly strengthened its product management capability with a focus on market demand. For example, the Group leveraged on its economies of scale in procurement to

MANAGEMENT DISCUSSION AND ANALYSIS

lower procurement costs and retail prices, provided more differentiated products to boost the consolidated gross profit margin, and offered a diversified product portfolio not only to expand sales volume, but also to increase profitability. At the same time, the Group continued to deepen cooperation with suppliers by emphasize on data and information sharing, placing purchase orders based on sales data, joint development of new and smart products, as well as the alliances with leading suppliers in terms of resources sharing. During the year, the Group entered into strategic cooperation arrangements with renowned suppliers including Haier, Gree, Midea, Apple, Samsung, Sharp, Lenovo and Microsoft. In doing so, it strengthened its supply chain and harnessed the resultant synergy to maximize operational efficiency and market share.

During the reporting period, the proportion of the Group's differentiated product sales to total revenue was up from 30% from the previous year to 33%. The increase has driven the steady growth of consolidated gross profit margin to a high level of 18.48%. In addition, the Group's top five suppliers (by brand) accounted for approximately 40.86% of total procurement, increased as compared with 39.64% for the corresponding period in 2013.

(3) Improving logistics and delivery services

The Group optimized the logistic and delivery services platform during the reporting period, which supported both omni-channel sales and the entire supply chain, promoted the Group's integration of online and offline storage and logistic resources for a wide range of large and small-sized home appliances, as well as 3C products. By providing "Three deliveries/day, Precise delivery and Installation with delivery", the Group has established itself as the industry benchmark in managing the logistics and delivery of the home appliance retail business.

The Group's logistic services – "Three deliveries/day, Precise delivery and Installation with delivery" – was facilitated by its powerful information system, advanced storage facilities and effective categorization and allocation of store resources. These allowed customers to enjoy the best delivery and installation services, enable them to specify delivery times based on their preferences. Through the computerized stacking of products with different sizes, the Group is able to fully utilize its logistic resources to maximize efficiency and minimize costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Currently, the Group and the Non-listed GOME Group are operating a total of 428 warehouses in the country, with a total storage area of approximately 1.95 million sq.m. that seamlessly covering over 600 prefecture/county-level cities in China. The competitive edge of GOME's logistic services lies in the breadth and depth of its logistic network coverage, which ensures the quality of the services. Apart from logistic warehouses, GOME's logistic network also comprised 1,688 chain stores (including Non-listed GOME Group stores) nationwide, which served as delivery and pick-up points for online orders and last-mile delivery centers. These chain stores further sharpened GOME's competitive edge in logistic services as they reduced transportation distance, increased delivery efficiency and reduced losses arising from inventory obsolescence.

GOME's logistic services are extension of its customers' shopping experience. Looking ahead, the Group will actively expand its logistic services and focus on raising service quality, with an aim to improving customers' shopping experience while promoting online and offline sales. As the Group has ample logistic resources, it will also be able to provide services to third-party enterprises, opening up huge opportunities for profit growth.

(4) Optimizing after-sales services

In 2014, the Group focused on two major aspects including service quality and the service network, to fully improve the after-sales services, offering consumers comprehensive protection on multiple fronts.

The Group allowed customers to enjoy after-sales services any time through the establishment of a 24-hour call center. With the after-sales customer survey system, the Group has strengthened the assessment of installation and maintenance services. This was effective in controlling and monitoring the defect rate, ensuring service quality. By accelerating the development of its home appliance extended warranty and home appliance recycling services, the Group was able to enhance customer satisfaction and grow profits at the same time.

As at the end of 2014, the Group and the Non-listed GOME Group were operating a total of 199 after-sales service branches and cooperating with 1,917 third-party service providers. The self-developed after-sales service team members have passed their technical training and certification assessments, and are able to offer customers more professional and comprehensive services in installation and maintenance.

(5) Strengthening information system

During the reporting period, the Group carried out a full upgrade of its information system to strengthen its internal corporate management, achieve seamless connection with suppliers and improve the customer experience.

The Group applied big data mobile technology in various self-developed applications for internal management, enabling the management to monitor the Group's operations with real-time data and make timely decisions, thereby significantly improving work efficiency and management effectiveness.

MANAGEMENT DISCUSSION AND ANALYSIS

In respect of the cooperation with suppliers, the Group formed strategic partnerships with a number of large suppliers such as Haier, Samsung, Midea, Sharp, Lenovo and Gree, to further improve various functions and strengthen its analytical capability including sales information for its Enterprise Cooperation Platform (ECP). The adoption of the ECP facilitated the Group's joint marketing and product design with its suppliers, as it fostered a closer relationship between them on ordering, delivery, reconciliation and settlement via the sharing of information and resources. The ECP system collects and analyzes data including consumption demand, so that suppliers would have more accurate and timely updates on product demand while the Group can also work with suppliers to offer high quality products to tailor for customer needs. This helped to enhance the competitiveness of the Group's core brands and profitability.

The Group endeavors to meet its customers' needs. It provided Wi-Fi services in over one hundred of its flagship stores. It used an intelligent information system to improve customers' shopping experience by helping them search for store locations and products, as well as compare prices. Meanwhile, the upgrade to the information system and logistic network increased transparency in operation management, achieved automation of warehouse operations, as well as enhanced the effective management of workflows. The Group also pioneered the service benchmark of "Three deliveries/day, Precise delivery and Installation with delivery", which together with the use of mobile App by its delivery and installation staff, met customers' needs for fast and precise delivery and installation services.

(6) Upgrading financial services

During the reporting period, the Group successfully launched customer-oriented service businesses such as the online and offline Mei Tong Card and the online Mei Ying Bao. Mei Tong Card is a prepaid shopping card which allows customers to shop conveniently through various GOME channels, while the Mei Ying Bao account provides value adding fund management services and permits withdrawals any time or can be used for personal consumption activities such as shopping on GOME-on-line. Meanwhile, the Group also focused on promoting the supplier-oriented factoring finance and business loans. These will provide a better and more accurate combination of products and services to consumers and suppliers, to enhance the cohesion of GOME's supply chain. The Group is committed to building a financial service platform which takes a nurturing and interactive strategic role in various segments of the omni-channel supply chain, enhancing the value of GOME's retail community.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Governance

The Group strives to continuously improve its corporate governance. As at 31 December 2014, the Board comprised one executive director, three non-executive directors (reduced to one non-executive director with effect from 28 January 2015) 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") stipulating 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 its corporate governance policy in accordance with the code provisions of the new corporate governance code, which came into effect on 1 April 2012. The Group has implemented all the requirements under the code provisions to further enhance its corporate governance.

On the operational level, the Group continued to strengthen its internal controls over 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 tasked a specialized surveillance team, which is highly independent, highly focused and empowered with sufficient authority, to deter unethical and illegal activities such as fraud, embezzlement, malpractice, misconduct, unauthorized partnerships and acquiescence. The Group also set up an internal audit system to monitor the execution of the financial policies, improve financial control and prevent financial risks, directly reporting to the headquarter.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Culture

Over the years, building on the traditional corporate culture, GOME has established a corporate culture anchored by "Trust". By spreading the corporate philosophy across all levels of the Company through the Culture Ambassador, everyone in the Group understands the culture of trust. The year 2014 was one in which GOME's trust-centric culture started penetrating. Upholding the value of a trust-centric culture, GOME exemplified the "Trust-centric" behavior internally and externally.

First, the Group continued to promote its trustworthy management philosophy internally. Through the use of the internal community forums, it promoted a trust-centric culture with the telling of various culture-related stories and highlighting the deeds of exemplary individuals and examples seen in daily operations. Second, based on mutual trust, the Group encouraged innovation and implemented innovative ideas by holding various activities. The Group also created a culture of innovation to stimulate its staff's creative thinking in order to help GOME becoming a creative and highly efficient organization.

Internalizing the philosophy, and exemplifying it in life – by promoting the culture through cognition, identification and practice, the trust-centric culture of GOME has becomes increasingly popular and turned into its corporate hallmark. In future, driven by the value of a trust-centric culture, GOME must be able to outperform and continue to lead the industry.

Human Resources

Human resource policy is one of the key contributors to the Group's success in implementing the strategy. During the reporting period, the Group successfully flattened the organizational structure and raised the efficiency by optimizing the authorization and operational procedures. Meanwhile, the Group has further built excellent teams through personnel incentives, talent pools and training.

Since the launch of the staff performance scheme, the work initiatives and management skills of the mid to senior management team have greatly improved. It also paved the way for greater mobility of the management team to a certain extent. For junior staff, the Group carried out rotation and replacement programs to identify potential talent and to expand the pool of brilliant staff.

During the reporting period, the personnel management policy achieved excellent results with leaps in the overall improvement in talent quality. The Group achieved growth in both productivity and average pay per head. Team spirit and staff morale have been greatly boosted.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

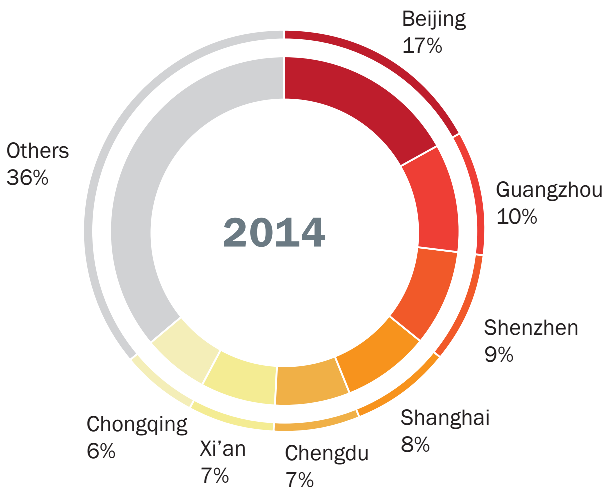
During the reporting period, the Group's revenue was approximately RMB60,360 million, up 7.02% from RMB56,401 million in 2013. The Group's weighted average sales area was approximately 3,641,000 sq.m. and the revenue per sq.m. was approximately RMB16,578, up 6.58% as compared with RMB15,555 for the corresponding period in 2013.

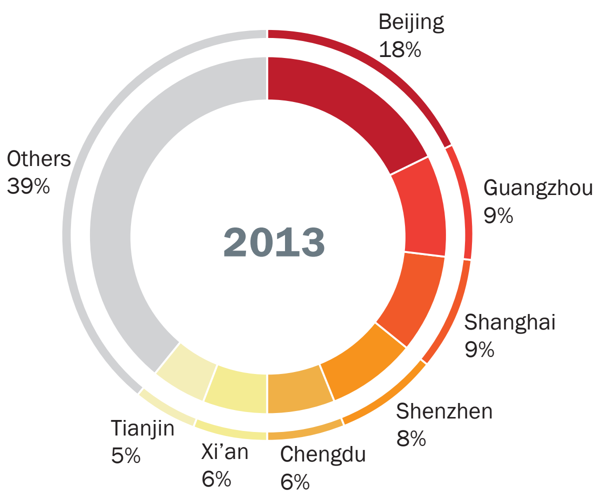
During the reporting period, aggregate sales of 898 comparable stores recorded a revenue of approximately RMB50,152 million, up 4.82% from RMB47,844 million for the corresponding period in 2013. Sales revenue from the four regions of Beijing, Guangzhou, Shenzhen and Shanghai accounted for approximately 44% of the total revenue, which is similar to the corresponding period last year.

Cost of sales and gross profit

Cost of sales of the Group was approximately RMB51,366 million in the reporting period, accounted for 85.10% of the revenue, which is similar as compared with 84.93% for the corresponding period in 2013. Gross profit was approximately RMB8,994 million, up 5.79% from RMB8,502 million in the previous year. The gross profit margin was 14.90%, relatively stable as compared with 15.07% for the corresponding period last year.

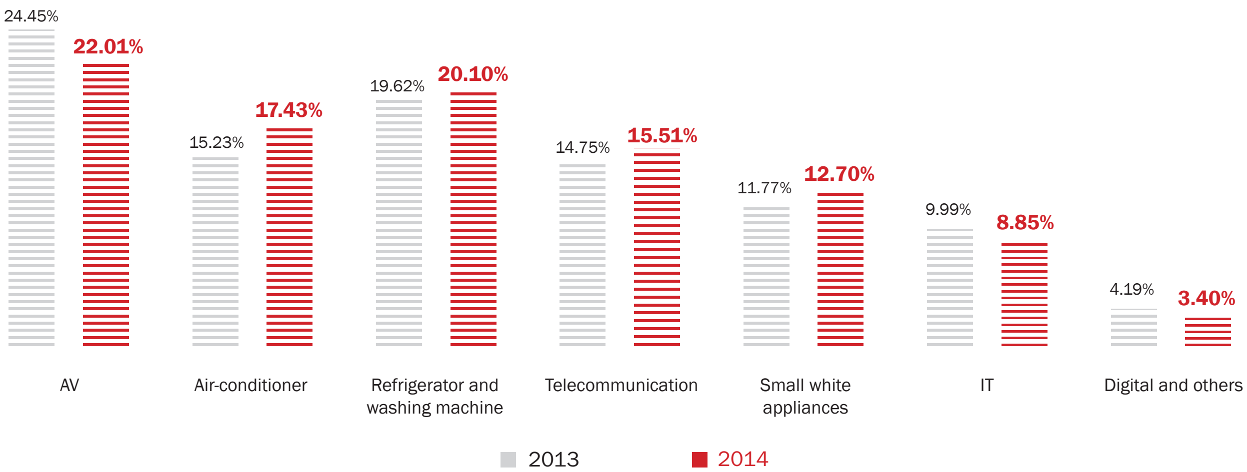
SALES REVENUE OF THE GROUP BY REGION:



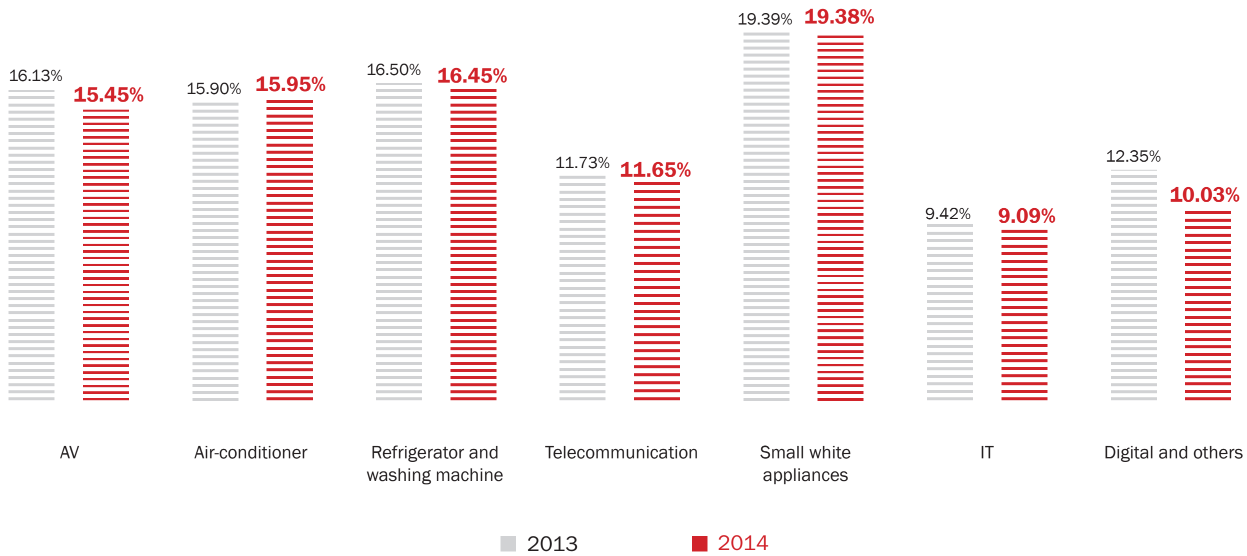


MANAGEMENT DISCUSSION AND ANALYSIS

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



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



MANAGEMENT DISCUSSION AND ANALYSIS

Other income and gains

During the reporting period, the Group recorded other income and gains of approximately RMB2,163 million, representing an increase of 16.79% over that of RMB1,852 million in 2013. This is mainly due to the increase in income from extended warranties, other income from telecommunication service providers and the one off compensation received from Mr. Wong Kwong Yu ("Mr. Wong").

Summary of other income and gains:

	2014	2013
As a percentage of sales revenue:		
Income from suppliers, net	0.78%	0.88%
Management and purchasing service fees from the Non-listed GOME Group	0.41%	0.44%
Income from air-conditioner installation	0.25%	0.19%
Gross rental income	0.51%	0.50%
Government grants	0.19%	0.26%
Income from extended warranties	0.39%	0.24%
Other income from telecommunication service providers	0.41%	0.29%
Compensation received	0.17%	–
Others	0.47%	0.48%
Total	3.58%	3.28%

Consolidated gross profit margin

During the reporting period, benefited from the differentiated product operation, the Group's consolidated gross profit margin was maintained at a high level of 18.48% as compared with 18.36% 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 RMB9,833 million, accounted for 16.29% of sales revenue, down by 0.27 percentage points as compared with 16.56% for the corresponding period in 2013, which was mainly due to the tightening control in the Group's expenses, especially in rental expenses and staff costs.

Summary of operating expenses:

	2014	2013
As a percentage of sales revenue:		
Selling and distribution expenses	12.47%	12.68%
Administrative expenses	2.82%	2.77%
Other expenses	1.00%	1.11%
Total	16.29%	16.56%

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

During the reporting period, the Group's total selling and distribution expenses increased from RMB7,153 million to approximately RMB7,527 million, up 5.23%. While the revenue has grown, the expense over revenue ratio was 12.47%, down 0.21 percentage points as compared with 12.68% for the corresponding period in 2013. To control the rental expenses and the staff costs effectively, the Group has been focusing on optimizing the floor area of the stores and applying optimized workforce to the stores.

Summary of selling and distribution expenses:

	2014	2013
As a percentage of sales revenue:		
Rental	5.17%	5.34%
Salaries	2.95%	2.92%
Utility charges	0.83%	0.81%
Advertising expenses	1.55%	1.63%
Delivery expenses	0.77%	0.73%
Others	1.20%	1.25%
Total	12.47%	12.68%

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 RMB1,701 million, more than that of RMB1,564 million for the corresponding period in 2013 by 8.76%. The expense over revenue ratio was 2.82%, increased by 0.05 percentage points as compared with 2.77% for the corresponding period in 2013. The Group has always been strengthening its control over administrative expenses in order to maintain its expense over 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 decreased from RMB623 million in 2013 to approximately RMB605 million during the reporting period. The expense over revenue ratio was 1.00%, decreased by 0.11 percentage points as compared with 1.11% in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit 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 expenses over revenue ratio reduced, the Group's profit from operating activities increased significantly by 30.44% from RMB1,015 million in 2013 to approximately RMB1,324 million.

Net finance income

The Group's finance costs were mainly interest on bank loans while finance income was mainly bank interest income. During the reporting period, the Group's net finance income increased from RMB180 million for the corresponding period last year to approximately RMB256 million.

Profit before tax

During the reporting period, the Group's profit before tax was approximately RMB1,580 million, significantly increased by 32.22% as compared with RMB1,195 million in 2013.

Income tax expense

During the reporting period, in line with increase in profit before tax, the Group's income tax expense increased from RMB517 million in 2013 to approximately RMB562 million. The management considers the effective tax rate applied to the Group for the reporting period is reasonable.

Profit for the year and earnings per share attributable to owners of the parent

During the reporting period, the profit attributable to the owners of the parent increased substantially by 43.50% from RMB892 million for the corresponding period last year to approximately RMB1,280 million. Basic earnings per share were RMB7.6 fen, as compared with RMB5.3 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 were mainly denominated in Renminbi and the rest in US dollars, HK dollars and other currencies, were approximately RMB8,794 million, decreased by 2.46% as compared with RMB9,016 million as at the end of 2013.

Inventories

As at the end of the reporting period, the Group's inventories amounted to approximately RMB10,926 million, up 32.90% as compared with RMB8,221 million in 2013. The inventory turnover period increased by 7 days from 61 days in 2013 to 68 days in 2014.

Prepayments, deposits and other receivables

As at the end of the reporting period, prepayments, deposits and other receivables of the Group amounted to approximately RMB4,798 million (including the

MANAGEMENT DISCUSSION AND ANALYSIS

prepayment for the subscription of new shares in Huishang Bank Corporation Limited ("Huishang Bank") of approximately RMB1,412 million, which was fully refunded on 16 January 2015 pursuant to the agreement), up 105.66% from RMB2,333 million as at the end of 2013.

Trade and bills payables

As at the end of the reporting period, trade and bills payables of the Group amounted to approximately RMB20,880 million, up 15.51% from RMB18,077 million as at the end of 2013. Trade and bills payables turnover days were approximately 138 days, same as the previous year.

Capital expenditure

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB630 million, representing a 44.50% increase as compared with approximately RMB436 million in 2013. 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 RMB861 million, a decrease as compared with net cash flows of RMB2,089 million in 2013. This is mainly due to the increase in advances to suppliers to secure more quality products as at the end of 2014.

Net cash flows used in investing activities amounted to approximately RMB1,970 million, including the prepayment for the subscription of new shares in the Huishang Bank of approximately RMB1,412 million, while RMB328 million was used in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Net cash flows generated from financing activities amounted to approximately RMB882 million while net cash flow for the corresponding period last year was RMB200 million. The increase this year was mainly due to the increase in interest-bearing bank loans.

Dividend and dividend policy

The Board recommended a final dividend of HK$1.80 cents (equivalent to RMB1.38 fen) per ordinary share (the "Final Dividend") for the year ended 31 December 2014, amounted to approximately HK$305,266,000 (equivalent to RMB234,864,000) based on 16,959,228,000 shares in issue as at 31 December 2014. Together with the interim dividend of HK$2.10 cents (equivalent to RMB1.63 fen) per ordinary share paid in October 2014 (the "Interim Dividend"), the total dividend for the year amounted to HK$3.90 cents (equivalent to RMB3.01 fen) per ordinary share, equivalent to approximately HK$661,410,000 (equivalent to RMB511,908,000).

Currently, the Board anticipates that the dividend payout ratio of the Company will be maintained at approximately 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 RMB74 million.

Foreign currencies and treasury policy

All the Group's income and a majority of its expenses were denominated in Renminbi. The Group has adopted effective measures to reduce its foreign exchange risks. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

The management 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2014, the total borrowings of the Group, being interest-bearing bank loans which were denominated in US dollars with floating interest rates, amounted to approximately RMB3,426 million. There was no fixed interest bank loan. The interest-bearing bank loans were repayable within one year. The Group's financing activities have been continuingly supported by its bankers.

As at 31 December 2014, the debt to total equity ratio, which was expressed as a percentage of total borrowings of approximately RMB3,426 million over total equity of approximately RMB16,035 million, increased by 3.85 percentage points from 17.52% as at 31 December 2013 to 21.37%.

Charge on group assets

As at the end of 2014, the Group's bills payable and interest-bearing bank loans were secured by the Group's time deposits amounting to approximately RMB6,073 million, certain inventories with a carrying value of approximately RMB521 million and certain buildings and investment properties of the Group with a carrying value of approximately RMB1,461 million. The Group's bills payable amounted to approximately RMB13,660 million.

OUTLOOK AND PROSPECTS

With the onset of the mobile internet era, the development of consumer behavior is trending towards a focus on the individual, with fragmented consumption time, diversified shopping scenarios, and less distinction between channels. In terms of the change in consumption behavior and demand, GOME will upgrade the Omni-Channel Experience in both online and offline to the Total Retail Experience emerging from the integrated online and offline channels, allowing consumers to shop freely between online, offline, mobile terminals and joint-operating channels. The Group will focus on the development of mobile micro shops on top of the front-end interface platform, connecting online and offline. Meanwhile, the Group will enhance the value of the supply chain with a focus on the back-end big data infrastructure to build a total retail community with over 100 million customers.

Through GOME's total retailing shopping process, consumers from different entrances will enjoy more product choices than ever, diversified services including shopping assistance, queries, payment, installation, after-sales, reviews and feedbacks etc. Meanwhile, the Group will also conduct targeted marketing and promote repeat purchases by transferring real-time customer behavior data to the front-end in a timely manner using the big data terminal. The key tasks for the Group in 2015 including:

Name: Xiaoguo and Xiaomei's micro shop
Password: HK00493

MANAGEMENT DISCUSSION AND ANALYSIS

Total Retail Interface Platforms

(1) Mobile micro shops: Loyal fans are consumers with the most potential. Anchored by the micro shops, GOME will connect offline, online and data terminals to create a superb consumer experience. Leveraging social media which focuses on one-to-one information sharing through a network of connections, GOME will launch and share enormous products, achieving cross-categories, cross-brands and round-the-clock sales, transcending the boundaries of time and space and offering exclusive customized services to consumers; (2) Smart stores: By expediting the digitization of its physical stores, increasing product variety, introducing sophisticated product experiences and new technologies, the Group will encourage consumer buying during shopping, playing and experiencing; (3) Second-tier market: GOME will accelerate the expansion of store networks to cover more counties and towns; (4) GOME-on-line: The Group will further develop direct sales of electrical appliance categories and platforms sales of non-electrical appliances. By accelerating the development of the mobile terminals and e-commerce business, GOME-on-line aims to become China's leading e-commerce platform.

Total Retail Supply Chain Value Platforms

(1) Big data terminal: The Group will make use of its massive transaction data to build a big data terminal. By capturing customers' behavior and consumption pattern through cloud computing and data analysis, the Group will be able to conduct targeted marketing, creating total retail interface platforms which allow boundless shopping experience and thorough penetration. Furthermore, the Group will leverage the data to boost collaboration between value platforms including procurement, logistics, after-sales, financial services and information; (2) Procurement: With the new procurement model driven by information sharing and synergies with suppliers, GOME would maintain its low price benchmark and increase its pace to achieve the target of raising the proportion of differentiated products; (3) Logistics: GOME is committed to building China's biggest socialized logistic network platform for home appliances. With its strong foundations, infrastructure and nationwide store network, GOME will continue to establish the highest service benchmark of "Three deliveries/day, precise delivery, installation on delivery"; (4) After-sales services: GOME has already become China's leading air-conditioner and television installation service provider. By offering the whole process after-sales services including installation, extended warranty, maintenance and home appliance recycling, and the "Deal with the problem within 24-hours guarantee", GOME aims to become China's largest home appliance after-sales services platform; (5) Information system: By building the GOME big data sharing cloud platform, establishing the data, logistics, after-sales, product, corporate resources and finance clouds etc, GOME will be able to achieve the sharing between logistics resources, data analysis and financial resources; (6) Financial services: GOME has successfully launched many internet financial products such as Mei Tong prepaid card, Mei Ying Bao and Mei Ying Piao services; and will focus on the development of consumer finance, factoring finance and business loan operations. This will let GOME to offer better and more customized financial products and services to customers and suppliers, enhancing loyalty to the GOME supply chain.

The infrastructure under the guidance of the Open Omni-Channel Retailer strategy has been completed which in turn paved the way for the Group's remarkable results. In 2015, with Internet Plus becoming the national strategy, and with the development of mobile terminals and social media, the Group will perform in-depth data mining and carry out targeted marketing with the aid of big data terminal. It will accelerate the integration and interaction between its online, offline and mobile terminals, and strive to build a Total Retail Community to become the best total retail platform in China covering consumer groups of all ages, channels and markets. This will create greater value to the shareholders, suppliers and consumers of GOME.

HIGHLIGHTS OF THE YEAR

DECEMBER 2014

- With its philanthropic project entitled Future Space, GOME has been awarded the Outstanding Prize for 2014 China CSR Excellence Award at the Fourth Award Ceremony of 2014 China CSR Excellence Award.
- The 2014 Best Employer Award were unveiled in Sanya, Hainan Province. With great accomplishments in human resources, GOME has been awarded the Top 100 Best Employers in China 2014.
- With its innovative strategy O2M Omni-Channel Retailer and remarkable results growth for seven consecutive quarters, GOME has been awarded the 2014 Top 10 Innovative Business Models in China.
- With great accomplishments in investor relations, GOME were awarded the Best Investor Relations Management Listed Company of the 2014 China Securities Golden Bauhinia Awards in 2014.

NOVEMBER 2014

- Leveraging on its marketing activity of Public Exposure on Products with Purposely Maneuvered Low Prices on 15 March, World Consumer Rights Day, GOME has been awarded a silver prize for event marketing under the category of Dandelion Prize of the First China Innovative Communication Awards.
- In the 16th China Retail Industry Convention, capitalizing on its O2M innovative Omni-Channel strategy as well as innovation in business model and management, GOME has won the Award for Innovation in China's Retail Industry; GOME's President Mr. Wang Jun Zhou was elected as the China Chain Store & Franchise Association: Retail Person of the Year for 2014, and 13 store managers from the GOME have been honored the Gold-Medal Store Managers Award.
- GOME launched its first phase of a large-scale welfare campaign calling for GOME members to donate winter clothing in six regions across the country, the campaign entitled Old Clothing Warms People's Hearts, which helped raised more than 6,300 pieces of clothing in nearly one month.

OCTOBER 2014

- With Love Cannot Wait and Talking Box, GOME's two marketing campaign targeted for China's Spring Festival, the Company has secured four honors: the marketing gold-medal of Advertisements of Small Budget, the bronze-medal of Brand Experience in China's Effie Awards, the gold-medal of China Great-Wall Advertiser Awards and the gold-medal of Chinese Elements International Creative Award, which made the Company the biggest winner in the 21st China International Advertising Festival.

HIGHLIGHTS OF THE YEAR

- The Top 100 Most Valuable Brands of China in 2014 was unveiled in Beijing, in which GOME's brand value was up from RMB71.602 billion in 2013 to RMB74.252 billion in 2014, representing a net increase of RMB2.65 billion. The Company ranked second in the top 100 list and first in the retail industry category for eight consecutive years.
- GOME-on-line, the e-commerce platform of GOME, declared to donate RMB1 million to earthquake-affected area for quake-relief and rebuilding purposes.

SEPTEMBER 2014

- The 2014 World Retail Congress was held in CNIT Convention Center of La Defense in Paris, France. GOME was nominated for Omni-Channel Retailer of the Year and CSR Initiative of the Year, which made the Company the only Chinese enterprise to be nominated for two awards in this event.
- The Ninth Asia Brand Ceremony was held in Hong Kong, in which the much-anticipated Top 500 Asian Brands in 2014 was unveiled, and GOME, the only brand from the home appliances chain industry, has been honored as The Most Reliable Asian Brand.

AUGUST 2014

- GOME-on-line, representing GOME Group (including Non-listed GOME Group), donated relief supplies and monies worth of RMB5 million to the earthquake-affected area of Ludian County in Zhaotong City, Yunnan Province, for quake-relief and rebuilding purposes.

MAY 2014

- GOME was selected as the exclusive channel operator of The Retail Incentive Program Promoting Energy-efficient Air-conditioners under the Global Environment Facility jointly developed and implemented by the Foreign Economic Cooperation Office, Ministry of Environmental Protection and The United Nations Development Program. While promoting the program, GOME launched a new subsidizing scheme to subsidise a maximum of RMB500 for each such energy-efficient air-conditioner purchased.

- GOME stepped up its efforts to improve its service quality by setting up an industry benchmark of "Three deliveries per day, precise delivery and installation on delivery", which further enhanced the service quality of the entire industry.

HIGHLIGHTS OF THE YEAR

MARCH 2014

- Focusing on the theme of Reform and Innovation, Transformation and Risk, the Second Summit of China Nobel Economist Conference was held in Beijing. GOME has been awarded the most paramount prize, Gold-medal for Revolution in Business model, attributable to its O2M Omni-Channel Business Development Model.

- GOME held a press conference on Setting New Benchmark of Low prices of Appliances on 15 March, World Consumer Rights Day in Beijing, in which GOME's President Mr. Wang Jun Zhou said that GOME would benefit consumers with true low prices, disclose misconduct of some vendors who purposely maneuvered prices, regulate market behavior and set up an industry benchmark. Moreover, GOME had made three service guarantee with which the Group would spare no efforts to fulfill consumers' demands in all respects.

JANUARY 2014

- With the theme of Honesty – A New Driver for Company Development, The Conference on Scientific Development of Chinese Enterprises and Advocating Honesty in Business Operation in 2014 jointly organized by the Ministry of Commerce, China Cooperative Trade Enterprises Association, Credit Rating and Certification Center was held in Beijing. With its excellent performance in retail chain industry, GOME has been honored the AAA Credit Rating Chinese Enterprise and Model Company for Honesty and Trust, which made GOME the most award-winner of the day.

TRUST IS A PLEASURE, INSPIRED TO BE TRUSTED

Building on the traditional corporate culture, GOME has established a corporate culture anchored by "Trust" and spreading the corporate philosophy across all levels of the Company through the Culture Ambassador.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. ZHANG Da Zhong

Mr. ZHANG Da Zhong, aged 66, 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 was 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, aged 45, has been an executive Director of the Company since 17 December 2010 and was the Vice President and the Senior Vice President of the Group from 17 December 2010 to 31 December 2013, 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 over 20 years and has bean practising legal areas relating to capital markets in the People's Republic of China over 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 partner and the managing partner. Between 2001 and 2011, Mr. Zou acted 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, he 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 is owned or controlled by Mr. Wong Kwong Yu, and was 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) between June 2011 and June 2014.

Mr. ZOU Xiao Chun

DIRECTORS
AND SENIOR MANAGEMENT PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SZE Tsai Ping, Michael

Mr. SZE Tsai Ping, **Michael**, age 69, 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 has been 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 69, 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.

Mr. CHAN Yuk Sang

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. LEE Kong Wai, **Conway**, aged 60, 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 and New Zealand, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants. Mr. Lee has been an independent non-executive director of Chaowei Power Holdings Limited, West China Cement Limited, China Modern Dairy Holdings Limited, Tibet 5100 Water Resources Holdings Ltd., CITIC Securities Company Limited, NVC Lighting Holding Limited, Yashili International Holdings Limited, GCL New Energy Holdings Limited, WH Group Limited and China Rundong Auto Group Limited (all being companies listed on the Hong Kong Stock Exchange, while CITIC Securities Company Limited also listed on the Shanghai Stock Exchange) since June 2010, July 2010, October 2010, March 2011, August 2011, November 2012, November 2013, May 2014, August 2014 and August 2014, respectively. Moreover, Mr. Lee has been appointed as a non-executive director and the deputy chairman of Merry Garden Holdings Limited (a company listed on the Hong Kong Stock Exchange) since July 2014. Mr. Lee was an independent non-executive director of Sino Vanadium Inc. (a company listed on the TSX Venture Exchange in Canada) and China Taiping Insurance Holdings Company Limited (a company listed on the Hong Kong Stock Exchange) from October 2009 to December 2011 and from October 2009 to August 2013, respectively. Mr. Lee has been appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China since 2007.

Mr. LEE Kong Wai, Conway

Mr. NG Wai Hung

Mr. NG Wai Hung, aged 51, 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 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 has been an independent non-executive director of Fortune Sun (China) Holdings Limited, Tech Pro Technology Development Limited, Trigiant Group Limited, Sustainable Forest Holdings Limited, On Time Logistics Holdings Limited and China Star Cultural Media Group Limited (all being companies listed on the Hong Kong Stock Exchange) since June 2006, April 2011, August 2011, February 2013, June 2014 and March 2015, respectively. Moreover, Mr. Ng was also an independent non-executive director of Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited), KTP Holdings Limited (currently known as Ares Asia Limited), Tomorrow International Holdings Limited (currently known as Talent Property Group Limited), Perception Digital Holdings Limited and HyComm Wireless Limited (currently know as Qingdao Holdings International Limited) (all being companies listed on the Hong Stock Exchange) from September 2008 to February 2010, from November 1999 to February 2011, from March 2000 to January 2012, from January 2013 to August 2014 and from January 2008 to September 2014, respectively.

DIRECTORS
AND SENIOR MANAGEMENT PROFILE

Ms. LIU Hong Yu

Ms. LIU Hong Yu, aged 51, 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), an external supervisor of Bank of Beijing Co., Ltd. (a company listed on Shanghai Stock Exchange) and an independent non-executive director of Lanpec Technologies Limited (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.

DIRECTORS
AND SENIOR MANAGEMENT PROFILE

SENIOR MANAGEMENT

Mr. WANG Jun Zhou, aged 53, 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 monitoring 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. In November 2014, Mr. Wang was awarded the China Chain Store & Franchise Association: Retail Person of the Year for 2014 (CCFA2014中國連鎖年度人物大獎) by the 16th China Retail Industry Convention.

Mr. FANG Wei, aged 43, 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. In 2011, Mr. Fang being a core ERP project team leading member of the Group, successfully launched the ERP system on-line, the Group was awarded the China Chamber of Commerce Science and Technology Award – National Commercial Technology Progress Award Grand Prize for 2012 (2012年度中國商業聯合會科學技術獎-全國商業科技進步獎特等獎) for its ERP project in December 2012 under the Nationwide E-commerce Supply Chain Integration and Application (超大型連鎖零售電子商務一體化及高效供需鏈應用綜合系統工程) category by the China Chamber of Commerce. In addition, Mr. Fang and his team were awarded the Best Investor Relations Management Listed Company of the 2014 China Securities Golden Bauhinia Awards in 2014. Mr. Fang is currently the chairman of the supervisory committee of Sanlian Commercial Co., Ltd. (a company listed on the Shanghai Stock Exchange).

DIRECTORS
AND SENIOR MANAGEMENT PROFILE

Ms. WEI Qiu Li, aged 47, 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 obtained an Executive MBA (EMBA) from the China Europe International Business School (中歐國際工商學院) in 2013. 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. Ms. Wei is currently a director of the board of Sanlian Commercial Co., Ltd. (a company listed on the Shanghai Stock Exchange).

Mr. LI Jun Tao, aged 49, 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).

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. MU Gui Xian, aged 42, 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). In 2011, Mr. Mu being a core ERP project team leading member of the Group, successfully launched the ERP system on-line, the Group was awarded the China Chamber of Commerce Science and Technology Award – National Commercial Technology Progress Award Grand Prize for 2012 (2012年度中國商業聯合會科學技術獎－全國商業科技進步獎特等獎) for its ERP project in December 2012 under the Nationwide E-commerce Supply Chain Integration and Application (超大型連鎖零售電子商務一體化及高效供需鏈應用綜合系統工程)category by the China Chamber of Commerce.

Mr. HE Yang Qing, aged 51, 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年度人物功勳獎). Mr. He is currently a director and the chairman of the board of Sanlian Commercial Co., Ltd. (a company listed on the Shanghai Stock Exchange).

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 2014.

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 119.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Statement of Profit or Loss on page 79 and Consolidated Statement of Comprehensive Income on page 80.

The state of affairs of the Group as at 31 December 2014 is set out in the Consolidated Statement of Financial Position on pages 81 to 82.

The cash flows of the Group for the year are set out in the Consolidated Statement of Cash Flows on pages 85 to 86.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 29 to the financial statements on page 162.

DIVIDENDS

The Board recommended a final dividend of HK$1.80 cents (equivalent to RMB1.38 fen) per ordinary share (the “Final Dividend”) for the year ended 31 December 2014 amount to approximately HK$305,266,000 (equivalent to RMB234,864,000) based on 16,959,228,000 shares in issue as at 31 December 2014.

Together with the interim dividend of HK$2.10 cents (equivalent to RMB1.63 fen) per ordinary share paid in October 2014 (the “Interim Dividend”), the total dividend for the year amounted to HK$3.90 cents (equivalent to RMB3.01 fen) per ordinary share, equivalent to approximately HK$661,410,000 (equivalent to RMB511,908,000) 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.

REPORT OF THE DIRECTORS

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 165 to 167 and in the consolidated statement of changes in equity.

As at 31 December 2014, the Company's reserves available for distribution to shareholders of the Company amounted to RMB310,933,000 (2013: RMB537,032,000) of which RMB234,864,000 has been proposed for the Final Dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

The movements in property and equipment during the year are set out in note 12 to the financial statements on pages 130 to 131.

MAJOR SUPPLIERS AND CUSTOMERS

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

– the largest supplier	11.46%
– five largest suppliers combined	40.86%

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 RMB2.85 million.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Director

Mr. ZOU Xiao Chun

Non-Executive Directors

Mr. ZHANG Da Zhong	
Mr. ZHU Jia	(resigned with effect from 28 January 2015)
Ms. WANG Li Hong	(resigned with effect from 28 January 2015)
Mr. CHEUNG Leong	(resigned with effect from 8 May 2014)

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

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 156, and pages 170 to 172 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.

REPORT OF THE DIRECTORS

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 and 28 February 2006, Mr. Wong and the Company entered into non-competition undertakings to govern competitions between the Group and the Non-listed GOME Group. Pursuant to the terms of the non-competition undertakings (i) the Group is restricted from carrying on retail business of electrical appliances and consumer electronics products by whatever means (whether through conventional retail stores or non-conventional modes of business (including online sales)) in areas where the Non-listed GOME Group operated the retail business of electrical appliances and consumer electronics products under the "GOME" brand name as at 3 June 2004; and (ii) reciprocally, the Non-listed GOME Group is restricted from carrying on the retail business of electrical appliances and consumer electronics products by whatever means (whether through conventional retail stores or non-conventional modes of business (including online sales)) in areas where the Group operated the retail business of electrical appliances and consumer electronics products under the "GOME" brand name as at 3 June 2004. In May 2012, pursuant to the subscription of a 40% interest in GOME-on-line by the Non-listed GOME Group, Mr. Wong has granted to the Group a waiver from compliance with the restriction set out in (i) above (excluding conventional mode of business). The effect is that the Group is able to operate its non-conventional modes of business via GOME-on-line with no geographical restriction.

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

As at 31 December 2014, 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 *(Note 1)*	1,168,920	–	–	–	1,168,920	0.01
Wang Jun Zhou	10,187,000 *(Note 2)*	–	–	–	10,187,000	0.06

Notes:

1. Mr. Zhu Jia resigned as non-executive director on 28 January 2015.
2. 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 2014, 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 23 March 2015, a maximum number of Shares available for issue under the Share Option Scheme was 368,142,032 Shares (including options for 94,163,000 ordinary shares that have been granted but not yet exercised), representing approximately 2.2% of the issued share capital of the Company as at 23 March 2015.

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).

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

As at 31 December 2014, Options to subscribe for an aggregate of 96,091,000 Shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

			Number of Options					Price of Shares for Options exercised during the year
Name of grantee	Date of grant	Exercise price per Share	As at 1 January 2014	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	As at 31 December 2014 *(Note 1)*	*(Note 5)*
		HK$						*HK$*
Chief Executive								
Wang Jun Zhou	7 July 2009	1.90	10,187,000	–	–	–	10,187,000	–
Other employees	7 July 2009	1.90	87,765,000	–	–	(1,861,000)	85,904,000	–
						(Note 4)		
Total			97,952,000	–	–	(1,861,000)	96,091,000	

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 2014, the revised terms would have the following effects:

   a. 88,351,000 vested Options will become lapsed and ceased to have any further effect after 15 November 2015.

   b. Up to 7,740,000 Options may be exercised commencing from 15 May 2015 and will become lapsed and ceased to have any further effect after 15 November 2015.

   c. 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 of 2.565%. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may 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. 1,861,000 Options were lapsed during the year ended 31 December 2014.

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 2014.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or Chief Executive, as at 31 December 2014, 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	5,500,503,338	32.43
Ms. Du Juan *(Note 2)*	Long position	5,500,503,338	32.43
Shinning Crown Holdings Inc. *(Note 3)*	Long position	4,619,779,938	27.24
BlackRock, Inc. *(Note 4)*	Long position	1,321,004,144	7.79
	Short position	900,000	0.01
Bain Capital Asia Integral Investors, LP. *(Note 5)*	Long position	921,969,013	5.44
Bain Capital Investors, LLC *(Note 6)*	Long position	921,969,013	5.44

Notes:

(1) Of these 5,500,503,338 Shares, 4,619,779,938 Shares were held by Shinning Crown Holdings Inc. and 634,016,736 Shares were held by Shine Group Limited (both companies are 100% beneficially owned by Mr. Wong), and 240,955,927 Shares were held by Smart Captain Holdings Limited and 5,750,737 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) BlackRock, Inc. held a long position in 1,321,004,144 Shares and a short position in 900,000 Shares in its capacity as interest of a corporation controlled by a substantive shareholder. Of these Shares, there were a long position in 67,047,000 Shares and a short position in 900,000 Shares which were unlisted derivatives that could be cash settled.

(5) Bain Capital Asia Integral Investors, LP. was interested in these Shares through its interests in controlled corporations. All of these interests have been sold on 21 January 2015.

(6) Bain Capital Investors, LLC was interested in these Shares through its interests in controlled corporations. These interests were the same as the interests disclosed in note 5 above and have been sold on 21 January 2015.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2014 are set out in note 19 to the financial statements on pages 144 to 152.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

During the year, the Group had 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 December 2012, 國美電器有限公司 (GOME Appliance Company Limited) ("GOME Appliance"), being indirectly wholly-owned subsidiary of the Company, and 國美電器零售有限公司 (GOME Electrical Appliances Retail Co. Ltd.) ("GOME Retail"), being 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 (original entered in 2005 and subsequently renewed in 2007 and 2010), 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 December 2012, GOME Appliance and GOME Retail entered into an agreement (the "2012 Master Purchase Agreement") to renew the Master Purchase Agreement (original entered in 2005 and subsequently renewed in 2007 and 2010), 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"), being indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company 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 Group 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 RMB18.77 million and RMB8.27 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 (including repairs, maintenance and customer service 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 After-Sales Services Agreement and the Second After-Sales Services Agreement were approximately RMB2.31 million and RMB0.75 million, respectively.

REPORT OF THE DIRECTORS

(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 resolution in respect of 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 RMB809.39 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 resolution in respect of 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 RMB3,392.38 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 favorable terms from suppliers. The Group provided purchasing services to the Non-listed GOME Group and charged the Non-listed GOME Group a fee at the rate of 0.9% of the revenue generated from the sales of electrical appliances and consumer electronics products of the Non-listed GOME Group which was determined with reference to the fixed cost nature of the expenses to be incurred by the Group in rendering the purchasing services to the Non-listed GOME Group and the expected revenue to be generated by the Non-listed GOME Group.

On 17 December 2012, 昆明恒達物流有限公司 (Kunming Hengda Logistics Company Limited) ("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 indirectly 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.) and 天津國美恒信物流有限公司 (Tianjin GOME Hengxin Logistics Co., Ltd.), all being indirectly owned by Mr. Wong and his associates thus, are connected persons of 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.

On 17 December 2012, 濟南萬盛源經濟諮詢有限公司 (Jinan Wansheng Yuan Economic Consulting Company Limited) ("Jinan Wansheng"), 天津國美商業管理諮詢有限公司 (Tianjin GOME Commercial Consultancy Company Limited) ("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

The Group has entered into a number of lease agreements with 北京鵬潤地產控股有限公司 (Beijing Pengrun Property Co., Ltd) ("Beijing Pengrun Property"), being indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company, to lease certain properties in the Pengrun Building as the office of the Group in Beijing (the "Pengrun Lease Agreements"). The Pengrun Lease Agreements have terms that have expired on 31 December 2014. The annual cap of rent (including management fee) payable by the Group for the year ended 31 December 2014 would be a sum of approximately RMB84.48 million. During the year, the total rental expense was approximately RMB84.22 million.

GOME Appliance leased from 北京國美電器有限公司 (Beijing GOME Electrical Appliance Co., Ltd.) ("Beijing GOME"), being indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company, the property located at No. A7, North Lane, Xibahe, Chaoyang District, Beijing ("the Xibahe Property") for use as a retail store of the Group (the "Xibahe Lease Agreement"). The Xibahe Lease Agreement has terms that have expired on 31 December 2014. The annual cap of rent payable by the Group for the year ended 31 December 2014 would be a sum of approximately RMB15.77 million. During the year, the total rental expense was approximately RMB15.77 million.

As those leases were due to expire on 31 December 2014, the Group has entered into new lease agreements (the "2015 Pengrun Lease Agreements") and (the "2015 Xibahe Lease Agreement") to renew the leases for the said properties on 17 November 2014.

REPORT OF THE DIRECTORS

Pursuant to the terms of the 2015 Pengrun Lease Agreements, GOME Appliance and GOME-on-line will lease from Beijing Pengrun Property certain properties in the Pengrun Building as the office of the Group in Beijing. The 2015 Pengrun Lease Agreements have a term of 1 year from 1 January 2015 to 31 December 2015. The annual cap of rent (including management fee) payable by the Group for the year ending 31 December 2015 would be a sum of approximately RMB116.99 million.

Pursuant to the terms of the 2015 Xibahe Lease Agreement, GOME Appliance will lease from Beijing GOME the Xibahe Property for use as a retail store of the Group for a term of 1 year from 1 January 2015 to 31 December 2015. The annual cap of rent payable by the Group for the year ending 31 December 2015 would be a sum of approximately RMB15.77 million.

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 not 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 2014, the Group employed a total of 42,839 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 126.

REPORT OF THE DIRECTORS

COMMITMENTS

Details of commitments are set out in note 33 to the financial statements on pages 168 to 169.

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 63 to 76.

EXCHANGE RATES EXPOSURE

Details of the exchange rates exposure are set out in note 38 to the financial statements on page 181.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the year ended 31 December 2014, the Company repurchased an aggregate of 74,527,000 shares on the Hong Kong Stock Exchange, details of which are as follows:

Month/Year	**Number of shares repurchased**	**Highest price**	**Lowest price**	**Aggregate consideration (excluding expenses)**
		HK$	*HK$*	*HK$*
April to May 2014	74,527,000 shares	1.44 per share	1.30 per share	102,048,630
	74,527,000 shares			102,048,630

The repurchased shares were cancelled upon repurchase and accordingly, the issued share capital of the Company was reduced by the nominal value thereof.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

REPORT OF THE DIRECTORS

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 2014.

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 2014, Tianjin Consultancy had advances in the aggregate amount of RMB3.6 billion (as at 31 December 2013: 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 Advance (original entered in 2007 and subsequently renewed in 2008, 2009 and 2011) was extended in December 2012 from 5 December 2012 to 4 December 2015 and the interest was 5.40%. As at 31 December 2014, the aggregate Advance was RMB3.6 billion and the Advance represented approximately 8.17% 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 39 to the financial statements on page 187.

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, 23 March 2015

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 affect the Group's businesses, financial condition, results of operations or growth prospects. These factors are by no means exhaustive or comprehensive, and there may be other factors 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 the 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.

RISK FACTORS

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 traffic and good accessibility (whether by public transportation or other means). During the year ended 31 December 2014, 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 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 may 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 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. Under relevant PRC foreign exchange laws and regulations, payment of current account items, including profit distributions and interest payments are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, which must be approved by and/or registered with the PRC State Administration of Foreign Exchange, or SAFE. Under the current foreign exchange control system, there is no guarantee that sufficient foreign currency will be available at a given exchange rate to the Group to enable it to fund its foreign currency needs or to pay dividends declared.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to upholding good corporate governance practices. For the year ended 31 December 2014, the Company was in compliance with the code provisions of 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 2014.

BOARD OF DIRECTORS

Board composition

During the year ended 31 December 2014 and up to the date of issue of this Annual Report, the Board comprises the following executive Director, non-executive Directors and independent non-executive Directors:

Mr. Zhang Da Zhong	*(Non-executive Director and Chairman)*
Mr. Zou Xiao Chun	*(Executive Director)*
Mr. Zhu Jia	*(Non-executive Director) (resigned with effect from 28 January 2015)*
Ms. Wang Li Hong	*(Non-executive Director) (resigned with effect from 28 January 2015)*
Mr. Cheung Leong	*(Non-executive Director) (resigned with effect from 8 May 2014)*
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)*

The biographical details of the current Board members are set out on pages 38 to 41 of this Annual Report.

Each of Mr. Zhu Jia and Ms. Wang Li Hong, being a non-executive Director, was re-elected at the Year 2014 Annual General Meeting of the Company with a specific term of 3 years from 10 June 2014. Each of Mr. Sze Tsai Ping, Michael and Mr. Chan Yuk Sang, being an independent non-executive Director, was re-elected at the Year 2014 Annual General Meeting of the Company with a specific term of 3 years from 10 June 2014. 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 re-elected or appointed at the Year 2013 Annual General Meeting of the Company with a specific term of 3 years from 10 June 2013. Mr. Cheung Leong, being a 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.

CORPORATE GOVERNANCE REPORT

Roles and functions

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

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 2014, 8 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 17 April 2014 Attendance	Annual General Meeting held on 10 June 2014 Attendance	Board Meeting Attendance
Mr. Zhang Da Zhong	1/1	1/1	8/8 (4/4)*
Mr. Zou Xiao Chun	1/1	1/1	8/8 (4/4)*
Mr. Zhu Jia	1/1	1/1	7/8 (3/4)*
Ms. Wang Li Hong	1/1	1/1	8/8 (4/4)*
Mr. Cheung Leong**	1/1	0/1	3/8 (1/4)*
Mr. Sze Tsai Ping, Michael	1/1	1/1	7/8 (3/4)*
Mr. Chan Yuk Sang	1/1	1/1	8/8 (4/4)*
Mr. Lee Kong Wai, Conway	1/1	1/1	8/8 (4/4)*
Mr. Ng Wai Hung	0/1	1/1	7/8 (4/4)*
Ms. Liu Hong Yu	0/1	1/1	8/8 (4/4)*

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

** *As disclosed in the announcement of the Company dated 8 May 2014, Mr. Cheung Leong resigned as a non-executive Director. Therefore, he did not attend the annual general meeting and all of the 5 Board meetings held subsequently.*

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 separated 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 late June 2014 on connected transactions, new Company Ordinance 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, the Company also provides each new Director with a comprehensive training on duties and responsibilities of directors of Hong Kong listed companies conducts by external counsel shortly after the appointment (the "Upfront Directors' Training") and the various updated internal guidelines of the Company for compliance purposes.

CORPORATE GOVERNANCE REPORT

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. 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*	– Nil.
Mr. Sze Tsai Ping, Michael	– Attended the Annual In-house Training. – Attended the training organized by Howse Williams Bowers (an international law firm) for 2 hours in November 2014. – Attended the Independent Non-executive Directors Forum organized by KPMG (an external auditors firm) for 2 hours in December 2014.
Mr. Chan Yuk Sang	– Attended the Annual In-house Training. – Attended the workshop on How to Ride on the Wave of China's Globalization, organized by Deloitte (an external auditors firm) for 2 hours in May 2014. – Attended the workshop on Crisis Management and the Role of the Independent Non-executive Directors, organized by Deloitte for 2 hours in September 2014. – Attended the seminar on Challenge of Discharging Responsibility as an Independent Non-executive Director, organized by Ernst & Young (an external auditors firm) for 3 hours in November 2014. – Attended the seminar on Continuing Obligation of Directors of Listed Companies, organized by Freshfields Bruckhaus Deringer (an international law firm) for 1 hour in November 2014.
Mr. Lee Kong Wai, Conway	– Attended the Annual In-house Training. – Attended the training on Continuing obligations of a Hong Kong Listed Company and its Directors organized by the Freshfields Bruckhaus Deringer (an international law firm) for 2 hours in May 2014. – Attended the training on Media Interview Skills organized by the SPRG Strategic Public Relationships Group (a PR firm based in Asia) for 1.5 hours in May 2014. – Attended the training on Disclosure of Insiders Information organized by Paul Hastings LLP (an international law firm) for 1 hour in December 2014. – Study the journals on Continuing Duties of the Directors of Companies Listed on the HKEx, Continuing Obligations of Companies on the main board of the HKEx and their Directors, Percentage Ratios under Chapter 14 of the main board listing rules and Connected Transaction under Chapter 14A of the Rules Governing the Listing of Securities on the HKEx written by Orrick, Herrington & Sutcliffe LLP (an international law firm) for a total of 4.5 hours during 2014.

Names of Directors	Details of trainings
Mr. Ng Wai Hung	– Attended the Annual In-house Training.
	– Attended the training on Recent Developments in Company Law organized by Lex Omnibus Limited for 3.25 hours in July 2014.
	– Attended the training on Anti-Money Laundering organized by Hong Kong Academy of Law for 3.5 hours in August 2014.
	– Attended the training on A Practical Analysis of Financial Statements for Lawyers organized by Lex Omnibus Limited for 3.25 hours in August 2014.
	– Attended the training on New Connected Transaction organized by Lex Omnibus Limited for 3.25 hours in September 2014.
	– Attended the training on The New Model Articles in the Companies Ordinance organized by Lex Omnibus Limited for 3.25 hours in October 2014.
	– Attended the training on Investigations into Listed Companies by Securities Regulators organized by Lex Omnibus Limited for 3.25 hours in October 2014.
Ms. Liu Hong Yu	– Attended the Annual In-house Training.

* *As disclosed in the announcement of the Company dated 8 May 2014, Mr. Cheung Leong resigned as a non-executive Director. Therefore, he did not attend the Annual In-house Training.*

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 2014, 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. 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. Zhu Jia	*(Non-executive Director) (Resigned on 28 January 2015)*

CORPORATE GOVERNANCE REPORT

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 Director 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 2014, the Remuneration Committee, among other matters, approved and recommended the terms and remunerations of the non-executive Directors and independent non-executive Directors for re-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	1/2
Mr. Sze Tsai Ping, Michael	2/2
Mr. Chan Yuk Sang	2/2
Mr. Lee Kong Wai, Conway	2/2
Mr. Zhu Jia	1/2

CORPORATE GOVERNANCE REPORT

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 2014, 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) (Resigned on 28 January 2015)*

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 on 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 re-election of Directors.

CORPORATE GOVERNANCE REPORT

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	2/2
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.

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 2014, 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) (Resigned on 28 January 2015)*
Ms. Wang Li Hong	*(Non-executive Director) (Resigned on 28 January 2015)*
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.

CORPORATE GOVERNANCE REPORT

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

Committee members	Attendance
Mr. Zhang Da Zhong	2/2
Mr. Zhu Jia	2/2
Ms. Wang Li Hong	2/2
Mr. Sze Tsai Ping, Michael	2/2
Mr. Chan Yuk Sang	2/2
Mr. Lee Kong Wai, Conway	2/2
Mr. Ng Wai Hung	2/2

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 2014, 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 2014, 4 Audit Committee meetings were held for, among other matters, considering the annual results of the Group for the financial year ended 31 December 2013, the quarterly results of the Group for the three months ended 31 March 2014, the interim results of the Group for the six months ended 30 June 2014 and the quarterly results of the Group for the nine months ended 30 September 2014, 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	4/4
Mr. Sze Tsai Ping, Michael	3/4
Mr. Chan Yuk Sang	4/4
Mr. Ng Wai Hung	4/4

The amount of audit fees payable to Ernst & Young, the auditors of the Company, for the year ended 31 December 2014 was RMB6,100,000 (2013: RMB5,550,000). The amount of remuneration payable to the auditors of the Company relating to non-audit services for the year ended 31 December 2014 was RMB540,000 (2013: RMB611,000). 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 2015. 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 2015.

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 2014 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.

CORPORATE GOVERNANCE REPORT

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 in respect of professional training 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, half-yearly and quarterly 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. 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 2014, 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.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

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

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

	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 79 to 187, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 2014, 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
23 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	*5*	**60,359,843**	56,400,662
Cost of sales	*6*	**(51,365,601)**	(47,898,540)
Gross profit		**8,994,242**	8,502,122
Other income and gains	*5*	**2,162,584**	1,851,971
Selling and distribution expenses		**(7,526,591)**	(7,152,640)
Administrative expenses		**(1,701,039)**	(1,564,270)
Other expenses		**(604,967)**	(622,664)
Profit from operating activities		**1,324,229**	1,014,519
Finance costs	*7*	**(46,111)**	(60,569)
Finance income	*7*	**302,026**	240,725
PROFIT BEFORE TAX	*6*	**1,580,144**	1,194,675
Income tax expense	*10*	**(561,976)**	(517,230)
PROFIT FOR THE YEAR		**1,018,168**	677,445
Attributable to:			
Owners of the parent	*31b(i)*	**1,279,770**	892,475
Non-controlling interests		**(261,602)**	(215,030)
		1,018,168	677,445
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*11*		
– Basic		**RMB7.6 fen**	RMB5.3 fen
– Diluted		**RMB7.6 fen**	RMB5.3 fen

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
PROFIT FOR THE YEAR		**1,018,168**	677,445
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of other investments	*16*	**82,350**	10,800
Exchange differences on translation of foreign operations		**12,987**	60,487
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**95,337**	71,287
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**95,337**	71,287
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,113,505**	748,732
Attributable to:			
Owners of the parent		**1,375,107**	963,762
Non-controlling interests	*19*	**(261,602)**	(215,030)
		1,113,505	748,732

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Property and equipment	*12*	**4,417,234**	4,094,770
Investment properties	*13*	**601,224**	948,805
Goodwill	*14*	**7,145,117**	7,145,117
Other intangible assets	*15*	**265,801**	289,239
Other investments	*16*	**217,350**	135,000
Lease prepayments and deposits	*17*	**311,128**	314,977
Deferred tax assets	*18*	**31,795**	50,588
Total non-current assets		**12,989,649**	12,978,496
CURRENT ASSETS			
Inventories	*20*	**10,926,399**	8,220,734
Trade and bills receivables	*21*	**267,694**	245,492
Prepayments, deposits and other receivables	*22*	**4,797,960**	2,333,481
Due from related companies	*23*	**227,964**	123,174
Pledged deposits	*24*	**6,072,895**	6,406,795
Cash and cash equivalents	*24*	**8,794,112**	9,015,813
Total current assets		**31,087,024**	26,345,489
CURRENT LIABILITIES			
Trade and bills payables	*25*	**20,880,430**	18,077,489
Customers' deposits, other payables and accruals	*26*	**2,425,413**	2,046,809
Interest-bearing bank loans	*27*	**3,425,950**	2,683,171
Due to related companies	*23*	**521,213**	464,142
Tax payable		**626,151**	562,620
Total current liabilities		**27,879,157**	23,834,231

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2014

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
NET CURRENT ASSETS		**3,207,867**	2,511,258
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,197,516**	15,489,754
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*18*	**162,998**	172,296
Total non-current liabilities		**162,998**	172,296
Net assets		**16,034,518**	15,317,458
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*29*	**423,221**	421,551
Reserves	*31(a)*	**16,247,831**	15,064,311
Proposed dividends	*32*	**234,864**	441,392
		16,905,916	15,927,254
Non-controlling interests	*19*	**(871,398)**	(609,796)
Total equity		**16,034,518**	15,317,458

Zhang Da Zhong
Director

Zou Xiao Chun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Notes	Attributable to owners of the parent												Non-controlling interests	Total equity
		Issued capital	Share premium	Contributed surplus	Capital reserve	Share option reserve	Asset revaluation reserve#	Other investment revaluation reserve	Statutory reserves	Exchange fluctuation reserve	Retained earnings	Proposed dividends	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Note 29							Note 31(a)						
Balance at 1 January 2014		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
Profit for the year		-	-	-	-	-	-	-	-	-	1,279,770	-	1,279,770	(261,602)	1,018,168
Other comprehensive income for the year:															
Changes in fair value of other investments	16	-	-	-	-	-	-	82,350	-	-	-	-	82,350	-	82,350
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	12,987	-	-	12,987	-	12,987
Total comprehensive income for the year		-	-	-	-	-	-	82,350	-	12,987	1,279,770	-	1,375,107	(261,602)	1,113,505
2013 scrip dividend paid in shares	29	3,149	161,375	-	-	-	-	-	-	-	-	(164,524)	-	-	-
2013 scrip dividend paid in cash	32	-	-	-	-	-	-	-	-	-	-	(103,219)	(103,219)	-	(103,219)
Repurchase of shares	29	(1,479)	(79,526)	-	-	-	-	-	-	-	-	-	(81,005)	-	(81,005)
Equity-settled share option arrangements	30	-	-	-	-	5,083	-	-	-	-	-	-	5,083	-	5,083
Transfer to statutory reserves		-	-	-	-	-	-	-	69,292	-	(69,292)	-	-	-	-
2013 cash dividend paid	32	-	-	-	-	-	-	-	-	-	-	(173,649)	(173,649)	-	(173,649)
2014 interim dividends paid	32	-	-	-	-	-	-	-	-	-	(277,044)	-	(277,044)	-	(277,044)
2014 proposed final dividends	32	-	-	-	-	-	-	-	-	-	(234,864)	234,864	-	-	-
Compensation received	35	-	-	-	233,389	-	-	-	-	-	-	-	233,389	-	233,389
Wind-up of subsidiaries		-	-	-	-	-	-	-	(5,672)	-	5,672	-	-	-	-
At 31 December 2014		423,221	9,543,093*	657*	(618,172)*	163,036*	117,468*	123,390*	1,505,592*	(150,872)*	5,563,639*	234,864	16,905,916	(871,398)	16,034,518

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2014

	Notes	Attributable to owners of the parent												Non-controlling interests	Total equity
		Issued capital	Share premium	Contributed surplus	Capital reserve	Share option reserve	Asset revaluation reserve#	Other investment revaluation reserve	Statutory reserves	Exchange fluctuation reserve	Retained earnings	Proposed dividends	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Note 29							Note 31(a)						
Balance at 1 January 2013		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

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 RMB16,247,831,000 (2013: RMB15,064,311,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,580,144**	1,194,675
Adjustments for:			
Finance income	*7*	**(302,026)**	(240,725)
Finance costs	*7*	**46,111**	60,569
Gain on settlement of a cross currency swap	*28*	**–**	(11,002)
Impairment provision for items of property and equipment	*6*	**10,464**	–
Net fair value loss/(gain) on investment properties	*6*	**3,738**	(30,333)
Loss on disposal of items of property and equipment	*6*	**9,216**	53,785
Impairment of goodwill	*6*	**–**	15,790
Depreciation	*6*	**555,868**	552,703
Amortisation of intangible assets	*6*	**23,438**	23,438
Equity-settled share option expense	*30*	**5,083**	(6,763)
Gain on compensation received from shareholders	*35*	**(100,102)**	–
		1,831,934	1,612,137
Decrease in lease prepayments and deposits		**3,849**	41,641
Increase in inventories		**(2,705,665)**	(441,570)
Increase in trade and bills receivables		**(22,202)**	(42,422)
(Increase)/decrease in prepayments, deposits and other receivables		**(1,074,621)**	502,100
(Increase)/decrease in amounts due from related companies		**(104,790)**	67,768
Increase in pledged deposits		**(153,565)**	(202,966)
Increase in trade and bills payables		**2,802,941**	60,743
Increase in customers' deposits, other payables and accruals		**391,177**	340,755
Increase in amounts due to related companies		**57,071**	229,447
Cash generated from operations		**1,026,129**	2,167,633
Interest received		**324,141**	247,925
Income tax paid		**(488,950)**	(326,413)
Net cash flows from operating activities		**861,320**	2,089,145

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Net cash flows from operating activities		**861,320**	2,089,145
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(629,604)**	(435,924)
Proceeds from disposal of items of property and equipment		**71,490**	108,016
Prepayment for shares subscription	*39*	**(1,411,973)**	–
Net cash flows used in investing activities		**(1,970,087)**	(327,908)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares	*29*	**(81,005)**	–
Compensation from shareholders received	*35*	**333,491**	–
New bank loans	*27*	**3,435,526**	2,729,636
Decrease in pledged deposits for bank loans	*24*	**487,465**	36,415
Repayment of bank loans	*27*	**(2,698,635)**	(2,408,034)
Dividends paid		**(553,912)**	(94,093)
Interest paid		**(40,687)**	(63,583)
Net cash flows from financing activities		**882,243**	200,341
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(226,524)**	1,961,578
Cash and cash equivalents at beginning of year		**9,015,813**	7,067,349
Effect of foreign exchange rate changes, net		**4,823**	(13,114)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**8,794,112**	9,015,813
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*24*	**8,468,197**	8,699,676
Non-pledged time deposits with original maturity of less than three months when acquired	*24*	**325,915**	316,137
		8,794,112	9,015,813

STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*19*	**5,389,943**	5,389,635
Total non-current assets		**5,389,943**	5,389,635
CURRENT ASSETS			
Amounts due from subsidiaries	*19*	**5,996,694**	6,718,389
Prepayments and other receivables	*22*	**1,412,215**	1,060
Cash and cash equivalents	*24*	**964,068**	705,137
Total current assets		**8,372,977**	7,424,586
CURRENT LIABILITIES			
Interest-bearing bank loans	*27*	**3,425,950**	2,683,171
Other payables and accruals	*26*	**14,218**	7,601
Amounts due to subsidiaries	*19*	**762,589**	659,178
Total current liabilities		**4,202,757**	3,349,950
NET CURRENT ASSETS		**4,170,220**	4,074,636
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,560,163**	9,464,271
Net assets		**9,560,163**	9,464,271
EQUITY			
Issued capital	*29*	**423,221**	421,551
Reserves	*31(b)*	**8,902,078**	8,601,328
Proposed dividends	*32*	**234,864**	441,392
Total equity		**9,560,163**	9,464,271

Zhang Da Zhong
Director

Zou Xiao Chun
Director

NOTES
TO FINANCIAL STATEMENTS

31 December 2014

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, consumer electronic products retail stores and electronic products on-line sales 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”). These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap.622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that ordinance. The financial statements have been prepared under the historical cost convention, except for investment properties and other investments which are classified as available-for-sale financial assets, 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 2014. 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.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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 earnings, 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 standards and new interpretation for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 (2011)	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC-Int 21	*Levies*
Amendment to IFRS 2 Included in Annual *Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to IFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to IFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendment to IFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective IFRSs*

[1] Effective from 1 July 2014

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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

Except for the amendment to IFRS 1 which is only relevant to an entity's first IFRS financial statements, the nature and the impact of each amendment and interpretation is described below:

(a) 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 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 amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in IFRS 10.

(b) The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" 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 have had no significant impact on the Group.

(c) The IAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives during the current and prior years.

(d) IFRIC-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which for the levies incurred by the Group are consistent with the requirements of IFRIC-Int 21.

(e) The IFRS 2 Amendment clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including (i) a performance condition must contain a service condition; (ii) a performance target must be met while the counterparty is rendering service; (iii) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment has had no impact on the Group.

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

(f) The IFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 or IAS 39. The amendment has had no impact on the Group.

(g) The IFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

(h) The IAS 36 Amendments remove the unintended disclosure requirement made by IFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments have had no significant impact on the Group.

2.3 NEW AND REVISED IFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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*[4]
Amendments to IFRS 10, and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[2]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to IAS 27 (2011)	*Equity method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

2.3 NEW AND REVISED IFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED *(continued)*

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

2.3 NEW AND REVISED IFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED *(continued)*

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The Annual Improvements to IFRSs 2010-2012 Cycle issued in January 2014 sets out amendments to a number of IFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

IFRS 8 Operating Segments: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 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).

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 *Non-current Assets Held for Sale and Discontinued Operations* 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 of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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.

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 operation disposed of and the portion of the cash-generating unit retained.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 categorised 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 categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 and investment properties), 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.

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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, whichever is shorter
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. 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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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.

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 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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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 recoginise 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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 assets' 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.

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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 liability depends on the classification as follows:

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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 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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in Renminbi ("RMB"), 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 RMB. 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 RMB 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 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:

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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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

Judgements *(continued)*

Tax provisions

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

Consolidation of Beijing Dazhong Home Appliances Retail Co., Ltd. ("Dazhong Appliances"), of which the Group is not the legal owner

The Group considers that it controls Dazhong Appliances 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 Investment Co., Ltd., 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 the ability to use its power over Dazhong Appliance to affect the amount of the investor's returns.

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 2014 was RMB7,145,117,000 (2013: RMB7,145,117,000). Further details are given in note 14.

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

Estimation uncertainty *(continued)*

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 2014 was RMB601,224,000 (2013: RMB948,805,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 13 to the financial statements.

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 2014 was RMB5,467,000 (2013: RMB23,703,000). The amount of unrecognised tax losses at 31 December 2014 amounted to RMB4,360,400,000 (2013: RMB3,624,900,000). Further details are given in note 18 to the financial statements.

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

Estimation uncertainty *(continued)*

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 2014, the carrying amount of available-for-sale assets was RMB217,350,000 (2013: RMB135,000,000). 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 2014 was RMB4,417,234,000 (2013: RMB4,094,770,000). 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, consumer electronic products retail stores and electronic products on-line sales 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, gain on settlement of 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 and deferred tax liabilities as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION *(continued)*

	2014 **RMB'000**	2013 RMB'000
Segment revenue		
Sales to external customers	**60,359,843**	56,400,662
Segment results	**1,309,488**	1,014,292
Reconciliation:		
Bank interest income	**302,026**	240,725
Unallocated income	**102,568**	37,906
Gain on settlement of a cross currency swap	**–**	11,002
Finance costs	**(46,111)**	(60,569)
Corporate and other unallocated expenses	**(87,827)**	(48,681)
Profit before tax	**1,580,144**	1,194,675
Segment assets	**28,960,521**	23,715,789
Reconciliation:		
Corporate and other unallocated assets	**15,116,152**	15,608,196
Total assets	**44,076,673**	39,323,985
Segment liabilities	**23,827,056**	20,588,440
Reconciliation:		
Corporate and other unallocated liabilities	**4,215,099**	3,418,087
Total liabilities	**28,042,155**	24,006,527
Other segment information		
Depreciation and amortisation	**579,306**	576,141
Capital expenditure*	**625,659**	429,827

* Capital expenditure consists of additions to property and equipment.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2014	2013
	RMB'000	RMB'000
Mainland China	**60,359,843**	56,400,662

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

(b) Non-current assets

	2014	2013
	RMB'000	RMB'000
Mainland China	**12,713,520**	12,768,409
Hong Kong	**26,984**	24,499
	12,740,504	12,792,908

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	2014 RMB'000	2013 RMB'000
Revenue			
Sale of electrical appliances and consumer electronic products		**60,359,843**	56,400,662
Other income			
Income from suppliers, net		**473,323**	496,695
Management and purchasing service fees from the Non-listed GOME Group	*(i)*	**250,000**	250,000
Income from air-conditioner installation		**148,074**	107,279
Gross rental income		**307,684**	282,691
Government grants	*(ii)*	**114,944**	143,744
Other service fee income		**233,352**	137,701
Income from compensation		**41,429**	48,892
Other income from telecommunication service providers		**249,551**	162,383
Commission income from services provision of online platform		**98,685**	30,786
Others		**145,440**	112,559
		2,062,482	1,772,730
Gains			
Fair value gain on investment properties	*13*	**–**	30,333
Foreign exchange difference, net		**–**	37,906
Gain on settlement of a cross currency swap		**–**	11,002
Compensation received	*35*	**100,102**	–
		100,102	79,241
		2,162,584	1,851,971

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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

6. PROFIT BEFORE TAX

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

	Notes	**2014** **RMB'000**	2013 RMB'000
Cost of inventories sold		**51,365,601**	47,898,540
Depreciation	*12*	**555,868**	552,703
Amortisation of intangible assets	*15, (i)*	**23,438**	23,438
Loss on disposal of items of property and equipment		**9,216**	53,785
Minimum lease payments under operating leases in respect of land and buildings		**3,303,420**	3,171,486
Impairment of goodwill		**–**	15,790
Impairment provision for items of property and equipment	*12*	**10,464**	–
Gross rental income	*5*	**(307,684)**	(282,691)
Net fair value loss/(gain) on investment properties	*5, 13*	**3,738**	(30,333)
Gain on settlement of a cross currency swap	*28*	**–**	(11,002)
Foreign exchange differences, net loss/(gain)		**37,396**	(37,906)
Auditors' remuneration			
– audit services		**6,692**	7,437
– non-audit services		**540**	611
Staff costs excluding directors' and chief executive's remuneration *(note 8):*			
Wages, salaries and bonuses		**2,155,715**	1,990,954
Pension scheme contributions*		**443,481**	418,136
Social welfare and other costs		**54,036**	38,186
Equity-settled share option expense		**5,075**	(5,867)
		2,658,307	2,441,409

Notes:

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

* At 31 December 2014, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2013: Nil).

7. FINANCE (COSTS)/INCOME

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

	2014 RMB'000	2013 RMB'000
Finance costs:		
Interest on bank loans wholly repayable within five years	**(46,111)**	(60,569)
Finance income:		
Bank interest income	**302,026**	240,725

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 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap.622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap.32), is as follows:

	2014 RMB'000	2013 RMB'000
Fees	**3,967**	4,099
Other emoluments:		
Salaries, allowances and other expense	**2,483**	4,019
Equity-settled share option expense	**8**	(896)
Pension scheme contributions	**39**	46
	2,530	3,169

During the year 2009, certain directors and the 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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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

(a) Independent non-executive directors

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

	Note	2014 RMB'000	2013 RMB'000
Mr. Sze Tsai Ping, Michael		**475**	479
Mr. Chan Yuk Sang		**475**	479
Mr. Lee Kong Wai, Conway		**475**	479
Mr. Ng Wai Hung		**475**	479
Ms. Liu Hong Yu	*(ii)*	**475**	267
		2,375	2,183

Notes:

(i) There was no other emolument payable to the independent non-executive directors during the year (2013: 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

2014	Notes	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		–	886	–	–	886
		–	886	–	–	886
Non-executive directors:						
Mr. Zhang Da Zhong		475	–	–	–	475
Mr. Zhu Jia	*(ii)*	475	–	–	–	475
Ms. Wang Li Hong	*(ii)*	475	–	–	–	475
Mr. Cheung Leong	*(i)*	167	–	–	–	167
		1,592	–	–	–	1,592
Chief executive:						
Mr. Wang Jun Zhou		–	1,597	8	39	1,644
		1,592	2,483	8	39	4,122

Notes:

(i) Mr. Cheung Leong resigned as a non-executive director with effect from 8 May 2014.

(ii) Mr. Zhu Jia and Ms. Wang Li Hong resigned as non-executive directors of the Company with effect from 28 January 2015.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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

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

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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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

(c) Five highest paid individuals

The five highest paid individuals during the year included the chief executive (2013: one director and the chief executive). Details of the director and the chief executive's remuneration are set out above. Details of the remuneration for the year of the remaining four (2013: three) highest paid individuals who are neither a director nor the chief executive of the Group are as follows:

	2014	2013
	RMB'000	RMB'000
Salaries, allowances and other expense	**5,392**	3,500
Pension scheme contributions	**140**	92
Equity-settled share option expense	**22**	(1,211)
	5,554	2,381

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	
	2014	2013
HK$1,000,001 to HK$1,500,000 (equivalent to RMB792,401 to RMB1,188,600)	**–**	1
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,188,601 to RMB1,584,800)	**4**	2
	4	3

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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 2014 and 2013.

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 the lesser of HK$1,250 and 5% of the employees' salaries for the years ended 31 December 2014 and 2013.

The Group's contributions to pension schemes for the year ended 31 December 2014 amounted to approximately RMB443,520,000 (2013: RMB418,182,000).

10. INCOME TAX EXPENSE

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

	2014	2013
	RMB'000	RMB'000
Current income tax	**552,481**	429,273
Deferred income tax *(note 18)*	**9,495**	87,957
Total tax charge for the year	**561,976**	517,230

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.

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% (2013: 25%) on their respective taxable income. During the year, 24 entities (2013: 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.

10. INCOME TAX EXPENSE *(continued)*

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.

As the Group had assessable profits arising in Hong Kong for 2014, RMB1,000 for provision of Hong Kong profits tax has been made for the year ended 31 December 2014 (2013: Nil).

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:

			2014		
	Hong Kong		Mainland China		Total
	RMB'000	%	RMB'000	%	RMB'000
(Loss)/profit before tax	(42,569)		1,622,713		1,580,144
Income tax at the statutory tax rate	(7,024)	16.5	405,679	25.0	398,655
Tax effect of preferential tax rates	–		(60,806)		(60,806)
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	–		51,193		51,193
Income not subject to tax	(17,383)		(28,479)		(45,862)
Expense not deductible for tax	9,908		70,224		80,132
Tax losses utilised from previous years	(106)		(82,327)		(82,433)
Tax losses not recognized	14,606		206,491		221,097
Tax charge at the Group's effective rate	1		561,975		561,976

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TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

10. INCOME TAX EXPENSE *(continued)*

	2013				
	Hong Kong		Mainland China		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 subsidiaries in Mainland China	–		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 recognized	2,191		216,182		218,373
Tax charge at the Group's effective rate	–		517,230		517,230

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 Mainland China. 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 Mainland China and the jurisdiction of the foreign investors. At 31 December 2014, 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 Mainland China (2013: Nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

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

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 16,923,994,000 (2013: 16,875,056,000) in issue during the year.

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

For the year ended 31 December 2014 and year ended 31 December 2013, no potential ordinary shares had any dilutive effect on the earnings per share.

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

	2014	2013
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	**1,279,770**	892,475

	Number of shares	
	2014	2013
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**16,923,994**	16,875,056

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31 December 2014

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 2014						
At 31 December 2013 and 1 January 2014:						
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
At 1 January 2014, net of accumulated depreciation and impairment:	2,769,607	608,376	696,951	19,406	430	4,094,770
Additions	–	344,429	79,300	5,371	196,559	625,659
Disposals	–	(58,970)	(21,321)	(415)	–	(80,706)
Impairment	–	(10,464)	–	–	–	(10,464)
Depreciation provided during the year	(97,891)	(214,259)	(235,751)	(7,967)	–	(555,868)
Reclassification from investment properties	343,843	–	–	–	–	343,843
Transfers from construction in progress	–	–	103,734	–	(103,734)	–
At 31 December 2014, net of accumulated depreciation and impairment	3,015,559	669,112	622,913	16,395	93,255	4,417,234
At 31 December 2014:						
Cost	3,690,192	1,927,122	1,521,006	90,050	93,255	7,321,625
Accumulated depreciation and impairment	(674,633)	(1,258,010)	(898,093)	(73,655)	–	(2,904,391)
Net carrying amount	3,015,559	669,112	622,913	16,395	93,255	4,417,234

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 2013						
At 31 December 2012 and 1 January 2013:						
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:	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

Certain of the buildings of the Group in Mainland China were pledged as security for bills payable (note 25) and interest-bearing bank loans (note 27) of the Group as at 31 December 2014. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2014 amounted to RMB1,027,907,000 (31 December 2013: RMB283,348,000).

The recoverable amount was nil for those impaired assets as at 31 December 2014.

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TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

13. INVESTMENT PROPERTIES

Group

	2014 **RMB'000**	2013 RMB'000
Carrying amount at 1 January	**948,805**	918,472
Net (loss)/gain from a fair value adjustment	**(3,738)**	30,333
Transfer to owner-occupied properties *(note 12)*	**(343,843)**	–
Carrying amount at 31 December	**601,224**	948,805

Investment properties comprised commercial properties in Mainland China 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 2014. 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 2014, investment properties of approximately RMB26,034,000 (31 December 2013: RMB23,586,000) are located in Hong Kong under medium term leases and investment properties of approximately RMB575,190,000 (31 December 2013: RMB925,219,000) are located in Mainland China under medium term leases.

Certain of the investment properties of the Group in Mainland China were pledged as security for bills payable (note 25) and interest-bearing bank loans (note 27) of the Group as at 31 December 2014. The aggregate fair value of the pledged investment properties attributable to the Group as at 31 December 2014 amounted to RMB433,096,000 (31 December 2013: RMB105,476,000).

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 2014 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	**–**	**–**	**575,190**	**575,190**
Industrial property and a car park	**–**	**–**	**26,034**	**26,034**
	–	**–**	**601,224**	**601,224**

	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 and a car park	–	–	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 (2013: Nil).

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TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

13. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

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

	Commercial properties RMB'000	Industrial property and a car park RMB'000
Carrying amount at 1 January 2013	894,145	24,327
Net gain/(loss) from a fair value adjustment recognised in other income and gains in profit or loss	31,074	(741)
Carrying amount at 31 December 2013 and 1 January 2014	925,219	23,586
Net (loss)/gain from a fair value adjustment recognised in other income and gains in profit or loss	(6,186)	2,448
Transfer to owner-occupied properties	(343,843)	–
Carrying amount at 31 December 2014	575,190	26,034

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

	Valuation technique	Significant unobservable inputs	Range 2014	Range 2013
Commercial properties	Income approach	Estimated rental value (RMB per square meter and per month)	**35.0 – 161.3**	26.3 – 477.3
		Rental growth (per annum)	**1% – 2%**	-1% – 3%
		Long term vacancy rate	**5% – 10%**	5% – 15%
		Discount rate	**5% – 7%**	5% – 8%

	Valuation technique	Significant unobservable inputs	Unit price 2014	Unit price 2013
Industrial property and a car park	Direct comparison approach	Market value (RMB per square meter)	**19,667**	18,123

13. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

Under the income approach, 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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

14. GOODWILL

Group

	Note	2014 RMB'000	2013 RMB'000
At 1 January:			
Cost		**7,170,907**	7,170,907
Accumulated impairment		**(25,790)**	(10,000)
Net carrying amount		**7,145,117**	7,160,907
Cost at 1 January, net of accumulated impairment		**7,145,117**	7,160,907
Impairment during the year	*(i)*	**–**	(15,790)
At 31 December		**7,145,117**	7,145,117
At 31 December:			
Cost		**7,170,907**	7,170,907
Accumulated impairment		**(25,790)**	(25,790)
Net carrying amount		**7,145,117**	7,145,117

(i) 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 year ended 31 December 2013, amounting to RMB15,790,000. The long-term assets of Huihai were merged into another cash-generating unit of 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:

	2014	2013
	RMB'000	RMB'000
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)**	(25,790)
	7,145,117	7,145,117

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 management which cover a period of five years. The pre-tax discount rates applied to the cash flow projections range from 16.19% to 18.10% (2013: range from 16.95% to 17.42%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2013: 3%). 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 regards 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 2014	
At 31 December 2013 and 1 January 2014:	
Cost	**440,959**
Accumulated amortisation	**(151,720)**
Net carrying amount	**289,239**
Cost at 1 January 2014, net of accumulated amortisation	**289,239**
Amortisation provided during the year	**(23,438)**
At 31 December 2014	**265,801**
At 31 December 2014:	
Cost	**440,959**
Accumulated amortization	**(175,158)**
Net carrying amount	**265,801**
31 December 2013	
At 1 January 2013:	
Cost	440,959
Accumulated amortization	(128,282)
Net carrying amount	312,677
Cost at 1 January 2013, net of accumulated amortization	312,677
Amortisation provided during the year	(23,438)
At 31 December 2013	289,239
At 31 December 2013 and at 1 January 2014:	
Cost	440,959
Accumulated amortization	(151,720)
Net carrying amount	289,239

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 management's estimate of their useful lives of 10 years, 20 years and 20 years, respectively.

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31 December 2014

16. OTHER INVESTMENTS

	2014 RMB'000	2013 RMB'000
Equity investments in Mainland China, at fair value	**217,350**	135,000

The balance as at 31 December 2014 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 2014 and 2013. 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, two were nominated by the Group as at 31 December 2014 (31 December 2013: three). 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 2014, the fair value of these investments was based on the quoted market price of the listed shares, which was RMB8.05 per share (31 December 2013: RMB5.0 per share).

During the year, the gain in respect of the Group's other investments recognised in other comprehensive income amounted to RMB82,350,000 (2013: RMB10,800,000).

During the year ended 31 December 2014, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to RMB30,224,371 (2013: Nil). The sales to Sanlian were made according to the published prices and conditions offered to other customers of the Group.

17. LEASE PREPAYMENTS AND DEPOSITS

Group

	Notes	2014 RMB'000	2013 RMB'000
Prepaid land lease payments	*(i)*	**35,753**	36,930
Rental prepayments and deposits	*(ii)*	**275,375**	278,047
		311,128	314,977

Notes:

(i) Prepaid land lease payments

Group

	Note	2014 RMB'000	2013 RMB'000
Carrying amount at 1 January		**38,107**	39,284
Recognised during the year		**(1,177)**	(1,177)
Carrying amount at 31 December		**36,930**	38,107
Current portion included in prepayment, deposits and other receivables.	*22*	**(1,177)**	(1,177)
Non-current portion		**35,753**	36,930

The leasehold land is held under a medium term lease and is situated in Mainland China.

(ii) The balances at 31 December 2014 and 2013 represented the non-current portion of rental prepayments and deposits.

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TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

18. DEFERRED TAX

Group

	Note	Balance at 1 January 2014 RMB'000	Recognised in the consolidated statement of profit or loss RMB'000	Balance at 31 December 2014 RMB'000
Deferred tax assets:				
Tax losses	*(i)*	**23,703**	**(18,236)**	**5,467**
Fair value adjustment on investment properties		**4,072**	**(557)**	**3,515**
Fair value adjustment on transfer of owner-occupied properties to investment properties		**22,813**	**–**	**22,813**
		50,588	**(18,793)**	**31,795**
Deferred tax liabilities:				
Fair value adjustment on acquisition		**113,762**	**(7,194)**	**106,568**
Fair value adjustment on investment properties		**19,379**	**(2,104)**	**17,275**
Fair value adjustment on transfer of owner-occupied properties to investment properties		**39,155**	**–**	**39,155**
		172,296	**(9,298)**	**162,998**

18. DEFERRED TAX *(continued)*

Group *(continued)*

	Note	Balance at 1 January 2013 RMB'000	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

Note:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB509.0 million (2013: RMB421.1 million), that are available indefinitely, and in the PRC of RMB3,851.4 million (2013: RMB3,203.8 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 2014, 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.

There are no income tax consequences attaching to the payments of dividends by the Company to its shareholders.

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31 December 2014

19. INVESTMENTS IN SUBSIDIARIES

Company

	2014 RMB'000	2013 RMB'000
Unlisted shares, at cost	**5,389,943**	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
Designline Group Inc.	United States	US$50,000	–	100	Management services
Gome Appliance Company Limited *(viii)* 國美電器有限公司	PRC	RMB300 million	–	100	*Note (vi)*

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
Tianjin Gome Electrical Appliance Company Limited *(i)* 天津國美電器有限公司	PRC	RMB40 million	–	100	*Note (iii)*
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)*

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TO FINANCIAL STATEMENTS (CONTINUED)

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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
Wuhan Gome Electrical Appliance Company Limited *(i)* 武漢國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Shenyang Gome Electrical Appliance Company Limited *(i)* 瀋陽國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Jinan Gome Electrical Appliance Company Limited *(i)* 濟南國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Qingdao Gome Electrical Appliance Company Limited *(i)* 青島國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Tianjin Gome Commercial Consultancy Company Limited *(i)* 天津國美商業管理諮詢有限公司	PRC	RMB3 million	–	100	*Note (v)*
Kunming Gome Logistics Company Limited *(i)* 昆明國美物流有限公司	PRC	RMB8 million	–	100	*Note (iv)*
Quanzhou Pengrun Gome Electrical Appliance Company Limited *(i)* 泉州鵬潤國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)*
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)*

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
Gansu Gome Electrical Appliance Company Limited *(i)* 甘肅國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)*
Beijing Pengze Real Estate Company Limited *(i)* 北京鵬澤置業有限公司	PRC	RMB10 million	–	100	Property holding
Shenyang Pengrun Gome Electrical Appliance Company Limited *(i)* 瀋陽鵬潤國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Kunming Qin'an Commercial Management Consultancy Company Limited *(i)* 昆明勤安商業管理諮詢有限公司	PRC	RMB6 million	–	100	*Note (v)*
Jiangsu Pengrun Gome Electrical Appliance Company Limited *(i)* 江蘇鵬潤國美電器有限公司	PRC	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)*

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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)*
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)*

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
Shaanxi Cellstar Telecommunication Retail Chain Company Limited *(i)* 陝西蜂星電訊零售連鎖有限責任公司	PRC	RMB10 million	–	100	*Note (vii)*
Shandong Longji Island Construction Company Limited *(i)* 山東龍脊島建設有限公司	PRC	RMB10 million	–	100	Investment holding
Suzhou Jiayue Trading Company Limited *(viii)* 蘇州嘉悅商貿有限公司	PRC	US$49.9 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 *(i)* 西寧國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)(iv)*
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)*

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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
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 a Sino-foreign equity joint venture 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 electrical appliances and consumer electronic products

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.

19. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

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

	2014	2013
Percentage of equity interest held by non-controlling interests:		
GOME-on-line	**40%**	40%

	2014 **RMB'000**	2013 RMB'000
Loss for the year allocated to non-controlling interests:		
GOME-on-line	**(254,596)**	(193,731)
Accumulated balances of non-controlling interests at the reporting dates:		
GOME-on-line	**(646,252)**	(391,656)

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19. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

2014	**GOME-on-line RMB'000**
Revenue	**3,947,877**
Loss for the year	**(636,491)**
Total assets	**968,935**
Total liabilities	**(2,584,564)**
Net cash flows from operating activities	**143,827**
Net cash flows used in investing activities	**(99,146)**
Net increase in cash and cash equivalents	**44,681**

2013	GOME-on-line RMB'000
Revenue	2,805,977
Loss for the year	(484,328)
Total assets	636,078
Total liabilities	(1,615,217)
Net cash flows from operating activities	90,058
Net cash flows used in investing activities	(42,115)
Net increase in cash and cash equivalents	47,943

20. INVENTORIES

Group

	2014 RMB'000	2013 RMB'000
Merchandise for resale	**10,792,532**	8,053,461
Consumables	**133,867**	167,273
	10,926,399	8,220,734

As at 31 December 2014, the Group's inventories amounting to RMB521 million (31 December 2013: RMB573 million) were pledged as security for the Group's bills payable (note 25).

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 senior management. Management considers that there is no significant concentration of credit risk.

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

Group

	2014 RMB'000	2013 RMB'000
Outstanding balances, aged:		
Within 3 months	**215,817**	208,500
3 to 6 months	**34,021**	25,099
6 months to 1 year	**17,856**	11,893
	267,694	245,492

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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

	2014	2013
	RMB'000	RMB'000
Neither past due nor impaired	**107,909**	104,250
Less than 3 months past due	**124,919**	116,800
Over 3 months past due	**34,866**	24,442
	267,694	245,492

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. 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

		2014	2013
	Notes	**RMB'000**	RMB'000
Prepayments		**740,279**	645,365
Advances to suppliers		**1,722,515**	856,717
Other deposits and receivables		**755,430**	663,636
Receivables from Wuhan Yinhe	*(i)*	**166,586**	166,586
Prepayment for share subscription	*39*	**1,411,973**	–
Current portion of prepaid land lease payments	*17*	**1,177**	1,177
		4,797,960	2,333,481

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

Company

	Note	2014 RMB'000	2013 RMB'000
Prepayments		**242**	1,060
Prepayment for share subscription	*39*	**1,411,973**	–
		1,412,215	1,060

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, Mainland China, 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 judgment and ordered: (i) the sale and purchase agreement and its supplementary agreement are void; (ii) Wuhan Yinhe shall refund the consideration paid by the Group of RMB107,315,000 to the Group; (iii) Wuhan Yinhe shall pay interest of RMB5,638,000 and damages of RMB38,633,000 to the Group; and (iv) Wuhan Yinhe shall pay other damages to the Group in the amount of RMB15,000,000. Wuhan Yinhe did not raise any appeal within the time limit. The management of the Company has consulted the Group's PRC legal advisers and considers 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.

As at 31 December 2014, in the opinion of management, the Group is able to recover the receivables because the Group's legal rights were secured by the court decision and the market value of the property is higher than the receivable of the Group.

On 14 January 2015, the Court announced that the first auction of the property was scheduled for 30 January 2015. The proceeds of the auction are intended to cover the Group's receivables. On 30 January 2015, the first auction aborted because no one participates in bidding. In accordance with the law of the People's Republic of China, the second auction will take place within 60 days after the first auction.

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TO FINANCIAL STATEMENTS (CONTINUED)

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23. DUE FROM/TO RELATED COMPANIES

Due from Related Companies

	2014 RMB'000	2013 RMB'000
Management fee receivables from the Non-listed GOME Group*	**71,410**	64,437
Other receivables from the Non-listed GOME Group**	**156,554**	58,737
	227,964	123,174

* 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

	2014 RMB'000	2013 RMB'000
Payables to the Non-listed GOME Group**	**521,213**	464,142

** 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

	2014	2013
	RMB'000	RMB'000
Cash and bank balances	**8,468,197**	8,699,676
Time deposits	**6,398,810**	6,722,932
	14,867,007	15,422,608
Less: Pledged time deposits for bills payable	**(4,128,768)**	(3,975,203)
Pledged time deposits for interest-bearing bank loans	**(1,944,127)**	(2,431,592)
	(6,072,895)	(6,406,795)
Cash and cash equivalents	**8,794,112**	9,015,813

Company

	2014	2013
	RMB'000	RMB'000
Cash and bank balances	**841,154**	389,000
Time deposits	**122,914**	316,137
Cash and cash equivalents	**964,068**	705,137

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TO FINANCIAL STATEMENTS (CONTINUED)

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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

	2014	2013
	RMB'000	RMB'000
Cash and bank balances	**8,468,197**	8,699,676
Short term deposits, non-pledged	**325,915**	316,137
Cash and cash equivalents	**8,794,112**	9,015,813

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB13,896,497,000 (31 December 2013: RMB14,700,915,000). 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. TRADE AND BILLS PAYABLES

Group

	2014 RMB'000	2013 RMB'000
Trade payables	**7,220,716**	5,992,325
Bills payable	**13,659,714**	12,085,164
	20,880,430	18,077,489

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:

	2014 RMB'000	2013 RMB'000
Within 3 months	**12,475,119**	11,908,864
3 to 6 months	**7,443,568**	5,565,819
Over 6 months	**961,743**	602,806
	20,880,430	18,077,489

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.

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TO FINANCIAL STATEMENTS (CONTINUED)

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26. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

Group

	2014	2013
	RMB'000	RMB'000
Customers' deposits	**515,845**	415,398
Deferred revenue *(note)*	**78,172**	70,128
Other payables and accruals	**1,831,396**	1,561,283
	2,425,413	2,046,809

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:

	2014	2013
	RMB'000	RMB'000
At 1 January	**70,128**	61,157
Arising during the year	**954,566**	819,376
Revenue recognised on utilised points	**(902,194)**	(741,649)
Revenue recognised on expired points	**(44,328)**	(68,756)
At 31 December	**78,172**	70,128

Company

	2014	2013
	RMB'000	RMB'000
Other payables and accruals	**14,218**	7,601

27. INTEREST-BEARING BANK LOANS

Group and Company

	2014	2013
	RMB'000	RMB'000
Bank loans – secured	**3,425,950**	2,683,171

The bank loans as at 31 December 2014 are denominated in United States dollars ("USD"). The bank loans bear interest at 3 month LIBOR plus 1.7% to 2.5%.

The bank loans are secured by the Group's buildings (note 12), investment properties (note 13) and pledged time deposits (note 24).

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

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.

The Group recorded the Swap Contract at fair value with any changes in value reported in profit or loss. On 8 August 2013, the Company and the Bank settled the contract before the date of expiration and the Group recognized a gain of RMB11,002,000 in the consolidated statement of profit or loss.

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TO FINANCIAL STATEMENTS (CONTINUED)

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29. ISSUED CAPITAL

	Number of shares '000	HK$'000	Equivalent to RMB'000
Authorised:			
Ordinary shares of HK$0.025 each at 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	200,000,000	5,000,000	5,300,000
Issued and fully paid:			
Ordinary shares of HK$0.025 each at 1 January 2013, 31 December 2013 and 1 January 2014	16,875,056	421,877	421,551
2013 scrip dividend declared *(note (i))*	158,699	3,967	3,149
Shares repurchased *(note (ii))*	(74,527)	(1,863)	(1,479)
Ordinary shares of HK$0.025 each at 31 December 2014	16,959,228	423,981	423,221

Note:

(i) On 20 March 2014, the board of directors recommended the payment of a special dividend which is payable in cash with a scrip dividend option (note 32). A total of 158,699,192 ordinary shares were allotted to the shareholders who have elected to exercise the scrip dividend option while the rest is paid in cash. The difference of RMB161,375,000 between the par value of the Company's shares and the then average market price of RMB164,524,000 has been credited to the share premium account.

(ii) On 7 April 2014, 11 April 2014, 15 April 2014, 26 May 2014 and 29 May 2014, the Company repurchased a total of 74,527,000 ordinary shares of the Company of HK$0.025 each at a total consideration of HK$102,049,000 (equivalent to RMB81,005,000). The repurchased shares were cancelled on 30 April 2014 and 12 June 2014, respectively. The consideration paid in excess of the par value of these repurchased shares of approximately RMB79,526,000 was debited to the share premium.

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 any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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.

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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:

	2014		2013	
	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**	**97,952**	1.90	133,268
Forfeited during the year	**1.90**	**(1,360)**	1.90	(18,817)
Expired during the year	**1.90**	**(501)**	1.90	(16,499)
At 31 December	**1.90**	**96,091**	1.90	97,952

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

2014 Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
88,351	1.90	On or before 15 November 2015
7,740	1.90	Between 15 May 2015 and 15 November 2015
96,091		

30. SHARE OPTION SCHEME *(continued)*

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		

* 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. Share option expense of RMB5,083,000 was recognised during the year ended 31 December 2014 (2013 reversed: RMB6,763,000).

No (2013: Nil) share options were exercised during the year.

At the end of the reporting period, the Company had 96,091,000 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 96,091,000 additional ordinary shares of the Company and additional share capital of HK$2,402,000 (equivalent to approximately RMB1,895,000) and share premium of HK$180,171,000 (equivalent to approximately RMB142,137,000) (before issue expenses).

At the date of approval of these consolidated financial statements, the Company had 94,163,000 share options outstanding under the Scheme, which represented approximately 0.56% 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 Mainland China 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.

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31. RESERVES *(continued)*

(b) Company

	Notes	Share premium RMB'000	Contributed surplus RMB'000 Note (ii)	Capital reserve RMB'000	Share option reserve RMB'000 Note (iii)	Exchange fluctuation reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000 Note (i)	Total RMB'000
At 1 January 2013		9,461,244	42,849	(1,063,814)	164,716	(49,695)	(395,556)	8,159,744
Profit for the year and total comprehensive income for the year		–	–	–	–	–	983,832	983,832
2013 interim dividend paid		–	–	–	–	–	(94,093)	(94,093)
Equity-settled share option arrangements		–	–	–	(6,763)	–	–	(6,763)
Proposed dividend		–	–	–	–	–	(441,392)	(441,392)
At 31 December 2013 and 1 January 2014		**9,461,244**	**42,849**	**(1,063,814)**	**157,953**	**(49,695)**	**52,791**	**8,601,328**
Profit for the year and total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**492,337**	**492,337**
2013 scrip dividend paid		**161,375**	**-**	**-**	**-**	**-**	**-**	**161,375**
Repurchase of shares		**(79,526)**	**-**	**-**	**-**	**-**	**-**	**(79,526)**
2014 interim dividend paid	32	**-**	**-**	**-**	**-**	**-**	**(277,044)**	**(277,044)**
Equity-settled share option arrangements		**-**	**-**	**-**	**5,083**	**-**	**-**	**5,083**
Compensation received	35	**-**	**-**	**233,389**	**-**	**-**	**-**	**233,389**
2014 proposed final dividend	32	**-**	**-**	**-**	**-**	**-**	**(234,864)**	**(234,864)**
At 31 December 2014		**9,543,093**	**42,849**	**(830,425)**	**163,036**	**(49,695)**	**33,220**	**8,902,078**

31. RESERVES *(continued)*

(b) Company *(continued)*

Notes:

(i) The profit attributable to owners of the parent for the year ended 31 December 2014 dealt with in the financial statements of the Company was approximately RMB492,337,000 (2013: RMB983,832,000).

(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 may 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 the vesting date.

32. DIVIDENDS

	2014	2013
	RMB'000	RMB'000
Interim: Cash dividend of HK$2.10 cents (equivalent to RMB1.63 fen) (2013: HK$0.70 cents (equivalent to RMB0.56 fen)) per ordinary share	**277,044**	94,093
Proposed final: Cash dividend of HK$1.80 cents (equivalent to RMB1.38 fen) (2013: Cash dividend of HK$1.30 cents (equivalent to RMB1.0 fen)) per ordinary share	**234,864**	173,649
Special: Nil (2013: Scrip dividend of HK$337,501,000 (equivalent to RMB267,743,000))	**–**	267,743
	511,908	535,485

The proposed final dividend is subject to the approval from the Company's shareholders at the forthcoming annual general meeting.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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:

	2014	2013
	RMB'000	RMB'000
Within one year	**2,919,815**	2,775,770
In the second to fifth years, inclusive	**8,056,776**	7,597,182
After five years	**3,206,863**	2,833,618
	14,183,454	13,206,570

As defined under IAS 17, a non-cancellable lease is a lease that is cancellable only (a) upon the occurrence of some remote contingencies; (b) with the permission of the lessor; (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

Pursuant to the relevant lease agreements, upon the payment of early termination compensation rental which in general ranges from one month to one year, the Group is entitled to terminate the underlying lease agreement if a store will not be in a position to continue its business because of the losses or other circumstances as specified under the rental agreements.

33. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS *(continued)*

(a) Operating lease arrangements *(continued)*

As lessor

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

	2014	2013
	RMB'000	RMB'000
Within one year	**206,838**	261,987
In the second to fifth years, inclusive	**536,495**	689,211
After five years	**151,681**	272,589
	895,014	1,223,787

(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:

	2014	2013
	RMB'000	RMB'000
Contracted, but not provided for:		
Construction of property and equipment	**74,385**	106,660

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

34. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed elsewhere in 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	2014 RMB'000	2013 RMB'000
Sales to the Non-listed GOME Group*	*(i)*	**1,523,642**	417,797
Purchases from the Non-listed GOME Group	*(i)*	**809,386**	733,098
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)*	**99,992**	89,415
Service fee to GOME Ruidong (defined in (i) below)	*(iv)*	**9,025**	3,693
Rental income from a related party	*(v)*	**–**	68

* 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 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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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 electronic products) by 北京國美銳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 Kuba and GOME-on-line which are defined as connected persons 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 electronic 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 17 November 2014, 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. On 25 August 2014, GOME-Online entered into a lease agreement with respect to its use of additional properties with Beijing Pengrun Property. During the year ended 31 December 2014, the rental expenses incurred by the Group payable to Beijing Pengrun Property and Beijing GOME amounted to RMB84,224,000 (2013:RMB74,961,00) and RMB15,768,000 (2013: RMB14,454,000), respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

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-Online 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-Online 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 contract was terminated on March 2013.

The transactions constitute continuing connected transactions but is exempted from all reporting announcement and independent shareholders' approve requirements under Listing Rules.

All above related party transactions were determined by mutual agreements between the involved parties after taking into account prevailing market prices. 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 had rental commitments with Beijing Pengrun Property and Beijing GOME of RMB116,993,000 (31 December 2013: RMB74,442,000) and RMB15,768,000 (31 December 2013: RMB15,768,000) under non-cancellable operating leases falling due within one year.

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

	2014	2013
	RMB'000	RMB'000
Fees	**3,967**	4,099
Other emoluments:		
Salaries, allowances and other expense	**8,884**	9,531
Pension scheme contributions	**210**	200
Equity-settled share option expense	**(483)**	(2,740)
	12,578	11,090

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

35. 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 (the "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 those shares 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 Repurchase 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 Repurchase 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 shares 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 sought 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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

35. CONTINGENCIES *(continued)*

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

Resolution of the Allegations 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, Shining 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) and (ii) certain breaches of duties to the Company by Mr. Wong and Ms. Du Juan (the "Breaches of Duties"); and (iii) the payment of compensation in the amount of approximately HK$420,609,000 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 convened a special general meeting of the Company on 17 April 2014. The requisitioned resolution was passed, and the SFC together with the Defendants applied 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. The High Court granted orders sought by the SFC on 5 May 2014.

The Payment of HK$420,609,000 represented the gains of Mr. Wong of HK$294,015,000 (equivalent to RMB233,389,000), which was recorded in equity, and the interest accrued thereon of HK$126,594,000 (equivalent to RMB100,102,000), which was recorded in the consolidated statement of profit or loss for the year ended 31 December 2014.

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

36. 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

2014

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	217,350	217,350
Trade and bills receivables	267,694	–	267,694
Financial assets included in prepayments, deposits and other receivables	922,016	–	922,016
Due from related companies	227,964	–	227,964
Pledged deposits	6,072,895	–	6,072,895
Cash and cash equivalents	8,794,112	–	8,794,112
	16,284,681	217,350	16,502,031

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank loans	3,425,950
Trade and bills payables	20,880,430
Financial liabilities included in customers' deposits, other payables and accruals	715,005
Due to related companies	521,213
	25,542,598

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TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group *(continued)*

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
Interest-bearing bank loans	2,683,171
Trade and bills payables	18,077,489
Financial liabilities included in customers' deposits, other payables and accruals	549,634
Due to related companies	464,142
	21,774,436

36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

Financial assets

	2014 **Loans and receivables** **RMB'000**	2013 Loans and receivables RMB'000
Amounts due from subsidiaries	**5,996,694**	6,718,389
Cash and cash equivalents	**964,068**	705,137
	6,960,762	7,423,526

Financial liabilities

2014

	Financial liabilities at amortised cost **RMB'000**
Interest-bearing bank loans	**3,425,950**
Amounts due to subsidiaries	**762,589**
Financial liabilities included in other payables and accruals	**9,691**
	4,198,230

2013

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank loans	2,683,171
Amounts due to subsidiaries	659,178
Financial liabilities included in other payables and accruals	4,267
	3,346,616

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

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37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Group

	Carrying amounts		Fair values	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Other investments	**217,350**	135,000	**217,350**	135,000

The Company's financial instruments are all with carrying amounts that reasonably approximate to fair values.

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 fair values of listed equity investments are based on quoted market prices.

37. 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 2014

	Fair value measurement using			
	Quoted prices in active market (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Other investments:				
Equity investments	**217,350**	**–**	**–**	**217,350**

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Other investments:				
Equity investments	135,000	–	–	135,000

During the year ended 31 December 2014, 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 2014.

Liabilities measured at fair value:

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2014 and 31 December 2013.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than other investments, comprise cash and cash equivalents, 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 2014, the Group had bank borrowings of RMB3,425,950,000 with floating interest rates (2013: RMB2,683,171,000).

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 before tax (due to changes in finance costs).

	Increase/ (decrease) in interest rate	**(Decrease)/ increase in profit before tax RMB'000**
2014		
If interest rate increases by	**5%**	**(2,306)**
If interest rate decreases by	**(5%)**	**2,306**

	Increase/ (decrease) in interest rate	(Decrease)/ increase in profit before tax RMB'000
2013		
If interest rate increases by	5%	(3,028)
If interest rate decreases by	(5%)	3,028

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

As at 31 December 2014, the Group had cash and bank deposits of RMB970,510,000 (2013: RMB721,693,000) and interest-bearing bank loans of RMB3,425,950,000 (2013: RMB2,683,171,000), 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 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**
2014		
If RMB weakens against USD	**5%**	**(128,441)**
If RMB strengthens against USD	**(5%)**	**128,441**
If RMB weakens against the Hong Kong dollar	**5%**	**5,669**
If RMB strengthens against the Hong Kong dollar	**(5%)**	**(5,669)**

	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)

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

38. 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 2014, the Group had trade and bills payables amounting to RMB20,880,430,000 (31 December 2013: RMB18,077,489,000). In addition, as at 31 December 2014, the Group had interest-bearing bank loans amounting to RMB3,425,950,000 (31 December 2013: RMB2,683,171,000) which will mature within 12 months. 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.

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

Group

	Within 1 year
	RMB'000
2014	
Interest-bearing bank loans and interest payables	**3,435,641**
Trade and bills payables	**20,880,430**
Financial liabilities included in customers' deposits and other payables	**705,314**
Due to related companies	**521,213**
	25,542,598

	Within 1 year
	RMB'000
2013	
Interest-bearing bank loans and interest payables	2,687,438
Trade and bills payables	18,077,489
Financial liabilities included in customers' deposits and other payables	545,367
Due to related companies	464,142
	21,774,436

NOTES
TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

Company

	Within 1 year
	RMB'000
2014	
Interest-bearing bank loans and interest payables	**3,435,641**
Amounts due to subsidiaries	**762,589**
	4,198,230

	Within 1 year
	RMB'000
2013	
Interest-bearing bank loans and interest payables	2,687,438
Amounts due to subsidiaries	659,178
	3,346,616

38. 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 2014. The Group's listed investments are valued at market price as at 31 December 2014 and 31 December 2013.

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 2014	**High/low 2014**	31 December 2013	High/low 2013
Shanghai – A Share Index	**3,389**	**3,389/ 2,084**	2,116	2,434/ 1,950

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 before tax RMB'000**	**Increase/ decrease in equity* RMB'000**
2014			
Investments listed in:			
Shanghai – Available-for-sale	**217,350**	**–**	**21,735**
2013			
Investments listed in:			
Shanghai – Available-for-sale	135,000	–	13,500

* Excluding retained earnings

38. 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. The gearing ratios as at the end of the reporting periods were as follows:

	2014 **RMB'000**	2013 RMB'000
Interest-bearing bank loans	**3,425,950**	2,683,171
Due to related companies	**521,213**	464,142
Trade and bills payables	**20,880,430**	18,077,489
Customers' deposits, other payables and accruals	**2,425,413**	2,046,809
Less: Cash and cash equivalents	**(8,794,112)**	(9,015,813)
Pledged deposits	**(6,072,895)**	(6,406,795)
Net debt	**12,385,999**	7,849,003
Equity attributable to owners of the parent	**16,905,916**	15,927,254
Total capital	**16,905,916**	15,927,254
Capital and net debt	**29,291,915**	23,776,257
Gearing ratio	**42%**	33%

39. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following events after the reporting period.

On 11 November 2014, the Group agreed to acquire a 5.41% stake, or 633 million new ordinary shares in the enlarged capital of Huishang Bank Corporation Limited ("Huishang"), for HK$3.8 (equivalent to RMB3.0) per share in cash, or at a total consideration of HK$2,404 million (equivalent to RMB1,897 million), in a privately negotiated capital enlargement transaction.

On 26 November 2014, as agreed with Huishang, the Group changed the acquisition plan from 5.41% to 4.09% stake, or from 633 million to 471 million new ordinary shares. The total consideration changed from HK$2,404 million (equivalent to RMB1,897 million) to HK$1,790 million (equivalent to RMB1,412 million) which was paid by the Group on 31 December 2014.

On 1 February 2015, the Group announced that as certain conditions precedent in relation to the subscription of Huishang shares have not been satisfied, and the Group and Huishang have not reached agreement on the continuous implementation of the transaction, the Group's proposed subscription of Huishang shares was terminated on 31 January 2015. The total amount of HK$1,790 million (equivalent to RMB1,412 million) including interest thereon was refunded to the Group on 16 January 2015.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 23 March 2015.

CORPORATE INFORMATION

DIRECTORS

Executive Director
ZOU Xiao Chun

Non-executive Director
ZHANG Da Zhong *(Chairman)*

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

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