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GOME ELECTRICAL APPLIANCES HOLDING LIMITED

國 美 電 器 控 股 有 限 公 司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 493)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

2008 FINANCIAL HIGHLIGHTS

- Revenue reached approximately RMB45,889 million, representing growth of 8.03%
- Consolidated gross profit margin (gross profit margin plus other income margin) rose by 1.3 percentage points to 16.94%
- Profit from operating activities reached approximately RMB1,944 million, representing a margin of 4.24%
- Net profit attributable to equity holders was approximately RMB1,048 million as compared to RMB1,127 million in 2007
- Basic EPS was RMB8.2 fen
- The Board does not recommend the payment of a final dividend, bringing total dividend in 2008 to HK3.0 cents (equivalent to RMB2.7 fen)

The board of directors (the “Board”) of GOME Electrical Appliances Holding Limited (the “Company”) announces the audited results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2008 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	4(a)	45,889,257	42,478,523
Cost of sales		<u>(41,381,223)</u>	<u>(38,383,276)</u>
Gross profit		4,508,034	4,095,247
Other income and gain	4(b)	3,266,244	2,546,876
Selling and distribution costs		(4,487,131)	(3,547,907)
Administrative expenses		(828,028)	(686,740)
Other expenses		<u>(515,357)</u>	<u>(604,768)</u>
Profit from operating activities		1,943,762	1,802,708
Finance costs	6	(212,118)	(193,369)
Finance income	6	441,017	424,241
Loss on the derivative components of convertible bonds	11	(189,220)	(505,483)
Impairment of other investments	12	<u>(449,592)</u>	<u>—</u>
Profit before tax	7	1,533,849	1,528,097
Tax	8	<u>(435,156)</u>	<u>(360,262)</u>
Profit for the year		<u>1,098,693</u>	<u>1,167,835</u>
Attributable to:			
Equity holders of the parent		1,048,160	1,127,307
Minority interests		<u>50,533</u>	<u>40,528</u>
		<u>1,098,693</u>	<u>1,167,835</u>
Dividends	9		
Interim		344,486	254,193
Proposed final		<u>—</u>	<u>328,629</u>
		<u>344,486</u>	<u>582,822</u>
Dividend per share	9		
Interim		RMB2.7 fen	RMB7.8 fen
Proposed final		<u>—</u>	<u>RMB9.9 fen</u>
		<u>RMB2.7 fen</u>	<u>RMB17.7 fen</u>
Earnings per share attributable to ordinary equity holders of the parent	10		
Basic		<u>RMB8.2 fen</u>	<u>RMB8.8 fen</u>
Diluted		<u>RMB8.2 fen</u>	<u>RMB8.8 fen</u>

CONSOLIDATED BALANCE SHEET

31 December 2008

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

CONSOLIDATED BALANCE SHEET (CONTINUED)

	<i>Notes</i>	2008 RMB'000	2007 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		331,791	343,764
Reserves		8,228,043	9,630,586
Proposed final dividend		—	328,629
		8,559,834	10,302,979
Minority interests		140,201	89,689
Total equity		8,700,035	10,392,668
Non-current liabilities			
Deferred tax liabilities		78,269	80,431
Convertible bonds	<i>11</i>	3,569,553	3,184,303
		3,647,822	3,264,734
Current liabilities			
Interest-bearing bank loans		170,000	300,000
Trade and bills payables	<i>15</i>	12,917,958	13,556,545
Customers' deposits, other payables and accruals		1,530,141	1,939,695
Tax payable		529,148	383,851
		15,147,247	16,180,091
Total liabilities		18,795,069	19,444,825
TOTAL EQUITY AND LIABILITIES		27,495,104	29,837,493
NET CURRENT ASSETS		3,335,464	6,157,468
TOTAL ASSETS LESS CURRENT LIABILITIES		12,347,857	13,657,402

Notes:

1. CORPORATE INFORMATION

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

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

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

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

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

2. BASIS OF PREPARATION

These financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at fair values: Hong Kong listed investments, investment properties, other investments and the derivative components of the convertible bonds. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

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

Basis of presentation

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

3. IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

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

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

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

- (c) IFRIC 12 *Service Concession Arrangements*

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

3. IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

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

IFRIC 14 addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

4. REVENUE AND OTHER INCOME AND GAIN

- (a) Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. The amount of revenue recognised during the year is as follows:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Sale of electrical appliances and consumer electronic products	<u>45,889,257</u>	<u>42,478,523</u>

- (b) Other income and gain comprise the following:

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

Notes:

- (i) The Non-listed GOME Group comprises Beijing Eagle Investment Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd., Gome Electrical Appliance Retail Co., Ltd. and other companies which are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of “GOME Electrical Appliances” in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Non-listed GOME Group are owned by Mr. Wong, a substantial shareholder of the Company.
- (ii) The Group entered into a management agreement (the “Management Agreement”) with Beijing Zhansheng Investment Co., Ltd. (“Beijing Zhansheng”) on 14 December 2007. Pursuant to the Management Agreement, the Group manages and operates the retailing business of Beijing Dazhong Home Appliances Retail Co., Ltd. (“Dazhong Appliances”) for management fees.
- (iii) Various local government grants have been received to reward the Group's contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

5. SEGMENT INFORMATION

Over 90% of the Group's turnover and contribution to the operating profit and assets are attributable to the operations and management of retailing business of electrical appliances and consumer electronic products. Over 90% of the Group's turnover and contribution to the operating profit is attributable to customers in the PRC and over 90% of the Group's operating assets are located in the PRC. Accordingly, no analysis of segment information is presented.

6. FINANCE (COSTS)/INCOME

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

Note:

- (i) Other interest income represented interest income from the RMB3,600 million designated loan (note 13) to Beijing Zhansheng through the Beijing Branch of Industrial Bank Co., Ltd. The relevant interest rate is 6.561% per annum, which is determined by reference to the interest rate published by the People's Bank of China.

7. PROFIT BEFORE TAX

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

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

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

8. TAX

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

	2008 RMB'000	2007 <i>RMB'000</i>
Current income tax – PRC	407,907	347,563
Deferred income tax	<u>27,249</u>	<u>12,699</u>
Total tax charge for the year	<u>435,156</u>	<u>360,262</u>

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

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2007: 33%) on their respective taxable income. During the year, 24 entities (2007: 40 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

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

No provision for Hong Kong profits tax has been made for the years ended 31 December 2008 and 2007, respectively, as the Group had no assessable profits arising in Hong Kong for the respective years.

A reconciliation of the income tax expense applicable to profit before tax using the statutory income tax rates for the countries in which the Company and its subsidiaries are domiciled to the income tax expense at the Group's effective tax rates, is as follows:

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

8. TAX (CONTINUED)

	Hong Kong		2007		
	RMB'000	%	PRC	%	Total
	RMB'000		RMB'000		RMB'000
Profit/(loss) before tax	<u>(754,284)</u>		<u>2,282,381</u>		<u>1,528,097</u>
Income tax at the statutory income tax rate	(132,000)	17.5	753,186	33.0	621,186
Tax effect of preferential income tax rates	–		(441,956)		(441,956)
Tax effect of non-taxable income	(43,186)		(5,327)		(48,513)
Tax effect of non-deductible expenses	172,695		25,672		198,367
Tax losses utilised from previous years	–		(21,179)		(21,179)
Tax losses not recognised	2,491		25,246		27,737
Effect of change in income tax rate	<u>–</u>		<u>24,620</u>		<u>24,620</u>
Tax charge at the Group's effective rate	<u>–</u>		<u>360,262</u>		<u>360,262</u>

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

9. DIVIDENDS

	Note	2008	2007
		RMB'000	RMB'000
Declared and paid during the year			
Equity dividends on ordinary shares:			
Final dividend per share for 2007: HK10.6 cents (equivalent to RMB9.9 fen) (2006: HK3.6 cents (equivalent to RMB3.6 fen))		328,629	110,118
Effect of share repurchases	(i)	(12,025)	–
Interim dividend per share for 2008: HK3.0 cents (equivalent to RMB2.7 fen) (2007: HK8.1 cents (equivalent to RMB7.8 fen))		<u>344,486</u>	<u>254,193</u>
		<u>661,090</u>	<u>364,311</u>
Proposed for approval			
Equity dividends on ordinary shares:			
Final dividend per share for 2008: Nil (2007: HK10.6 cents (equivalent to RMB9.9 fen))		<u>–</u>	<u>328,629</u>

Note:

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

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

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

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

The following reflects the earnings and share data used in the basic and diluted earnings per share computations:

	2008 RMB'000	2007 RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	<u>1,048,160</u>	<u>1,127,307</u>
	Number of shares 2008 '000	2007 '000 Note (ii)
Weighted average number of ordinary shares for basic earnings per share	12,804,958	12,772,464
Effect of dilution:		
Warrants	<u>31,342</u>	<u>38,700</u>
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>12,836,300</u>	<u>12,811,164</u>

Notes:

- (i) The convertible bonds are anti-dilutive for years ended 31 December 2008 and 2007 and are ignored in the calculation of diluted earnings per share for the year.
- (ii) The comparative information of the share data for 2007 is adjusted retrospectively to reflect the subdivision of shares.

11. CONVERTIBLE BONDS

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

11. CONVERTIBLE BONDS (CONTINUED)

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

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

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

- (i) convertible at the option of the bondholders into fully paid ordinary shares at anytime from 18 May 2008 to 11 May 2014 at a conversion price of HK\$19.95 (at a fixed exchange rate of RMB0.9823 to HK\$1.00) per share;
- (ii) redeemable at the option of the bondholders on 18 May 2010, being the third anniversary of the issue date, in an USD amount equivalent to their RMB principal amount multiplied by 102.27% and on 18 May 2012, being the fifth anniversary of the issue date, in an USD amount equivalent to their RMB principal amount multiplied by 103.81%; and
- (iii) redeemable at the option of the Company at any time after 18 May 2010 and prior to 18 May 2014 in all or some only of the bonds for the time being outstanding at the US dollar equivalent of their early redemption amount as at the date fixed for redemption, providing the prices of the Company’s shares for each of 20 consecutive trading days are over 130% of the early redemption price.

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

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

The movements of the liability component, derivative component and equity component of the 2014 Convertible Bonds for the year 2007 and year 2008 are as follows:

	Liability component of convertible bonds RMB'000	Derivative component of convertible bonds RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
Principal amount of convertible bonds issued	3,305,362	(143,600)	1,438,238	4,600,000
Transaction costs	(49,392)	–	(22,468)	(71,860)
Interest expenses	119,833	–	–	119,833
Fair value adjustment*	–	(47,900)	–	(47,900)
At 31 December 2007	3,375,803	(191,500)	1,415,770	4,600,073
Interest expenses	196,030	–	–	196,030
Fair value adjustment	–	189,220	–	189,220
At 31 December 2008	<u>3,571,833</u>	<u>(2,280)</u>	<u>1,415,770</u>	<u>4,985,323</u>

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

11. CONVERTIBLE BONDS (CONTINUED)

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

On 28 January 2006, the Company and a wholly owned subsidiary of Warburg Pincus Private Equity IX, L.P. (the “Subscriber”) entered into a subscription agreement (the “Subscription Agreement”) in relation to the issuance of US\$125 million unlisted and unsecured convertible bonds due in 2011 (the “2011 Convertible Bonds”) and warrants to subscribe in aggregate for a maximum amount of US\$25 million new shares of the Company to the Subscriber. The proceeds from the issuance of the 2011 Convertible Bonds on 1 March 2006 of US\$125 million (approximately equivalent to RMB999,950,000) have been split into liability and derivative components. The derivative component is measured at fair value on the issue date and any subsequent changes in fair value of the derivative component as at the balance sheet date are recognised in the consolidated income statement.

The fair values of the derivative component are determined based on the valuations performed by Vigers Appraisal & Consulting Limited (“Vigers”) using the applicable option pricing model.

On 18 May 2007 and 24 October 2007, the 2011 Convertible Bonds with the principal amount of US\$75 million and US\$50 million were fully converted into 90,898,072 and 60,598,715 new ordinary shares of the Company, respectively, at a conversion price of US\$0.8251.

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

	Liability component of convertible bonds	Derivative component of convertible bonds	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2007	726,703	206,787	933,490
Interest expenses	44,636	—	44,636
Interest paid	(11,889)	—	(11,889)
Fair value adjustment*	—	553,383	553,383
Exchange difference	(17,243)	(14,350)	(31,593)
Conversion into ordinary shares	(742,207)	(745,820)	(1,488,027)
At 31 December 2007	<u>—</u>	<u>—</u>	<u>—</u>

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

12. OTHER INVESTMENTS

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
PRC equity investments, at fair value	<u>108,810</u>	<u>—</u>

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

12. OTHER INVESTMENTS (CONTINUED)

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

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

13. DESIGNATED LOAN

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

The designated loan is secured by (i) the pledge of the entire registered share capital of Dazhong Appliances (including any dividends and other interests arising in relation to the relevant share capital) and (ii) the pledge of the entire registered share capital of Beijing Zhansheng (including any dividends and other interests arising in relation to the relevant share capital) in favour of the Group.

In addition, pursuant to an option agreement dated 14 December 2007, Beijing Zhansheng irrevocably granted the Group an option (the "Purchase Option"), on an exclusive basis, for the Group or any party(ies) designated by the Group to acquire all or part of the registered share capital of Dazhong Appliances held by Beijing Zhansheng, subject to the terms and conditions of the Option Agreement.

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

14. TRADE AND BILLS RECEIVABLES

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

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date of the trade receivables, is as follows:

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

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

14. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

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

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

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

The balances are unsecured, non-interest-bearing and are repayable on demand.

15. TRADE AND BILLS PAYABLES

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

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

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

The Group's bills payable are secured by:

- (i) the pledge of the Group's time deposits;
- (ii) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by the Group's time deposits;
- (iii) the pledge of certain of the Group's inventories;
- (iv) the pledge of certain of the Group's buildings;
- (v) the pledge of certain of the Group's investment properties; and
- (vi) the corporate guarantees provided by the Non-listed GOME Group, Mr. Wong and Mr. Chen Xiao as at 31 December 2008.

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

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP REVIEW

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

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

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

FINANCIAL REVIEW

REVENUE

During the period under review, the Group's revenue grew to RMB45,889 million, up 8.03% from RMB42,479 million in 2007. During the period, the Group's weighted average sales area was approximately 2,960,000 square meters, compared to approximately 2,470,000 square meters in 2007, representing an increase of approximately 19.84%. Annualized sales per square meter in the reporting period was RMB15,503, declined slightly from the corresponding period in 2007, which was primarily due to the slowdown in growth of sales revenue and the growth in sales area was greater than that of revenue.

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

COST OF SALES AND GROSS PROFIT

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

OTHER INCOME

During the reporting period, the Group recorded other income of RMB3,266 million, representing an increase of 28.23% over that of RMB2,547 million in 2007, and the proportion of other income to sales revenue increased from 6% to 7.12%. This was mainly due to the increase in income from suppliers following the scale expansion of the Group and the management fee of RMB24 million from Beijing Dazhong Home Appliances Retail Co., Ltd. (北京大中電器連鎖銷售有限公司) according to the Management Agreement signed by Beijing Zhansheng Investment Co., Ltd. (北京戰聖投資有限公司) and Tianjin Gome Commercial Consultancy Co., Ltd. In addition, other income also comprised the management and procurement service fees received from the Non-listed GOME Group, income from air-conditioner installation, and rental income from investment properties.

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

Other income comprised the following:

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

CONSOLIDATED GROSS PROFIT MARGIN

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

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

SELLING AND DISTRIBUTION COSTS

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

ADMINISTRATIVE EXPENSES

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

OTHER EXPENSES

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

FINANCE INCOME, NET

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

PROFIT BEFORE TAX

During the reporting period, the Group's profit before tax was approximately RMB1,534 million, accounting for 3.34% of sales revenue, slightly increased as compared with RMB1,528 million in 2007.

INCOME TAX

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

PROFIT FOR THE YEAR AND EPS

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

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

CASH AND CASH EQUIVALENTS

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

INVENTORY

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

PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

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

TRADE AND BILLS PAYABLE

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

CAPITAL EXPENDITURE

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

CASH FLOW

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

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

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

OUTLOOK AND PROSPECTS

2009 OPERATIONAL PLANS

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

In 2009, the Group will steer from former sale-oriented operating model to a profit-oriented one. While continually increasing its consolidated gross profit margin through differentiating both brands and products, expanding customized sales and formulating product structures, the Group will also strive to reduce the overall costs by imposing stringent control on all expenses, especially rental expense, which accounts for a relatively higher proportion of the overall costs, by looking for properties with lower rentals, and closing down under-performing stores.

Moreover, the Group will increase the overall turnover and profit by improving the operational proficiency of each individual store. The Group aims to increase revenue by employing the experience of leading international retail enterprises to introduce innovations to the store operating model.

The Group is determined to increase its profitability through improving product structures, such as increasing sales of 3C products and accessories, launching own brand products, and increasing the sales proportion of "Healthy Lifestyle" household appliances, all of which carry higher gross profit margin. Meanwhile, the Company will rationalize its network without compromising the established advantages of its network.

With suppliers, the Group is willing to manage its business in the context of fostering a healthy relationship among all members of the supply chain. The Group is committed in building a transparent relationship and consistency in commercial terms and conditions with its suppliers so as to allow sustainable profit for both.

The Group will reinforce internal management on the existing organizational structure and conduct comprehensive appraisal on all of the staff, in accordance with the performance assessment targets for 2009. The Group will also adopt a system of elimination of the worst performers to spruce up the team and to ensure the operating costs are under effective control.

MARKET OPPORTUNITIES

POLICY OF BOOSTING SALES OF HOUSEHOLD APPLIANCES IN RURAL AREAS

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

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

As such, the Group has set up a special functional department, the “go rural” center to manage related business in rural areas and to promote business development in second-tier markets. Two systems shall be formed, one operating system to support “go rural” business in self-owned stores, the other to support authorized franchises in those rural areas not yet covered by the Group’s own network. Thereby, the Group will speed up the roll out of sales outreach in the rural areas, accelerate the distribution of products in rural areas, and increase the percentage of sales through agents by diversifying product portfolio to maximize its market share.

FAVORABLE CYCLE

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

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

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

3G BUSINESS

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

DECLARATION OF DIVIDEND AND DIVIDEND POLICY

The board of directors of the Company does not recommend the payment of a final dividend. Together with the interim dividend of HK3.0 cents (equivalent to RMB2.7 fen) per share paid during the year, the total dividend for the year will amount to HK3.0 cents (equivalent to RMB2.7 fen) per share. Currently, the Directors anticipate that the dividend payout ratio will be maintained at approximately 30% of the Group’s distributable profit of the relevant financial year. However, the actual payout ratio in a financial year will be determined at the Directors’ full discretion, after taking into account, among other considerations, availability of investment and acquisition opportunities.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

Except for the guarantees of RMB243 million given to banks in connection with bill facilities granted in favour of Dazhong Appliances, which was not provided in the statements, there were no material contingent liabilities as at the end of the reporting period. However, the Group had capital commitment of approximately RMB501 million at the end of the reporting period.

FOREIGN CURRENCIES AND TREASURY POLICY

All the Group's income and a majority of its expenses were denominated in Renminbi. As Renminbi has been appreciating against US dollar, the Group's short-term US dollar deposit has recorded an exchange loss in the reporting period. The Group has not hedged its foreign exchange exposure but may consider doing so in future. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

The management of the Group estimates that less than 3% of the Group's current purchases are imported products, which are sourced indirectly from distributors in the PRC and the transactions are denominated in Renminbi.

FINANCIAL RESOURCES AND GEARING RATIO

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

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

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

CHARGE ON GROUP ASSETS

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

HUMAN RESOURCES

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

CORPORATE GOVERNANCE

During the year ended 31 December 2008, the Company was in compliance with the Code Provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. However, under code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer of a listed company should be separate and should not be performed by the same individual. The Company was in compliance with Code Provision A.2.1 during the review period up to 27 November 2008. As disclosed in the announcement of the Company dated 28 November 2008, as a result of Mr. Wong Kwong Yu's inability to perform his duties as a Director and the Chairman of the Company, the Board with effect from 27 November 2008 appointed Mr. Chen Xiao who is an executive Director and the President of the Company to be the Acting Chairman of the Company. As Mr. Chen Xiao, being the President of the Company, has been performing the role and function of the chief executive officer of the Company, his appointment as the Acting Chairman constituted a deviation from code provision A.2.1 of the CG Code. Given that Mr. Chen Xiao has been the substantial shareholder (as defined in the Listing Rules) and the President of the Group since completion of the Company's acquisition of China Paradise Electronics Retail Limited (which he founded) and has over 20 years of experience in the electrical and electronic retail sector in China, the Board believes that it is in the best interest of the Group and its shareholders as a whole to also appoint Mr. Chen Xiao as the Acting Chairman in the interim period to provide stability to the Group and to oversee the operations of the Group in the circumstances.

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

AUDIT COMMITTEE

The Audit Committee of the Company comprises Messrs. SZE Tsai Ping, Michael, CHAN Yuk Sang, Mark Christopher, GREAVES and Dr. LIU Peng Hui, all of whom are independent non-executive Directors. The Audit Committee assists the Board in providing an independent review on the completeness, accuracy and fairness of the financial statements of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee had reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2008 and the auditors' report thereon and submitted its reports to the Board.

PURCHASE, SALE AND REDEMPTION OF SHARES

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

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

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

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

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

This announcement will be published on the Stock Exchange's website and the Company's website (www.gome.com.hk). The 2008 Annual Report will also be published on the Stock Exchange's website and the Company's website and will be despatched to the shareholders of the Company.

APPRECIATION

On behalf of the Board, I wish to thank our shareholders and business partners for their support to the Group and to extend my appreciation to all staff members for their dedication and contribution throughout the period.

By Order of the Board
GOME Electrical Appliances Holding Limited
Chen Xiao
Chairman and President

Hong Kong, 27 April 2009

As at the date of this announcement, the executive Directors are Mr. Chen Xiao, Mr. Ng Kin Wah, Mr. Wang Jun Zhou and Ms. Wei Qiu Li, the non-executive Director is Mr. Sun Qiang Chang and the independent non-executive Directors are Mr. Sze Tsai Ping, Michael, Mr. Chan Yuk Sang, Mr. Mark Christopher GREAVES and Dr. Liu Peng Hui, Mr. Yu Tung Ho and Mr. Thomas Joseph Manning.

* *For identification purpose only*