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The attached offering memorandum is not a prospectus for the purposes of the European Union Directive 2003/71/EC (and amendments thereto) as implemented in member states of the European Economic Area (the "EU Prospectus Directive"). The attached offering memorandum has been prepared on the basis that all offers of the securities made to persons in the European Economic Area will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus in connection with offers of the securities.

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OFFERING MEMORANDUM **CONFIDENTIAL**

US$100,000,000

GOME ELECTRICAL APPLIANCES HOLDING LIMITED
國美電器控股有限公司

(incorporated in Bermuda with limited liability)

5.0% BONDS DUE 2020
(to be consolidated and form a single series with the US$400,000,000 5.0% Bonds due 2020 issued on March 10, 2017)
Issue Price: 100.625%, plus accrued interest from (and including) March 10, 2017 to (but excluding) June 23, 2017

GOME Electrical Appliances Holding Limited (the "Company" or the "Issuer") is offering 5.0% Bonds due 2020 in the aggregate principal amount of US$100,000,000 (the "New Bonds"). The New Bonds will be issued under a supplemental trust deed dated as of June 23, 2017 (the "Supplemental Trust Deed") by and between the Company and Trustee (as defined therein), which shall supplement the trust deed dated as of March 10, 2017 (the "Trust Deed"), by and between the Company and Trustee, governing the Company's outstanding US$400,000,000 aggregate principal amount of 5.0% Bonds due 2020 (the "Original Bonds"). The New Bonds are identical in all respects with the Original Bonds, other than with respect to the date of issuance and issue price. The Original Bonds and the New Bonds are referred to collectively as the "Bonds".

The Bonds will bear interest from March 10, 2017 at 5.0% per annum payable semi-annually in arrears on March 10 and September 10 of each year, beginning September 10, 2017. The Bonds will mature on March 10, 2020.

The Bonds are senior obligations of the Company.

Unless previously redeemed, or purchased or cancelled, the Bonds will be redeemed at their principal amount on March 10, 2020. We may redeem all, but not less than all, of the Bonds at a price equal to their principal amount plus accrued and unpaid interest upon certain changes in the tax laws of certain jurisdiction. Upon the occurrence of a Change of Control Triggering Event (as defined herein), we must make an offer to repurchase all Bonds outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but excluding) the date of repurchase.

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) of the Terms and Conditions) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) of the Terms and Conditions, at all times rank at least equally with all its other present and future direct, unconditional, unsecured and unsubordinated obligations.

Pursuant to the Terms and Conditions of the Bonds, we have agreed to deposit an amount not less than the Specified Balance (as defined in the Terms and Conditions) into the Interest Reserve Account (as defined in the Terms and Conditions of the Bonds) and will, other than in accordance with Condition 4(f) of the Terms and Conditions of the Bonds, maintain an amount not less than the Specified Balance in the Interest Reserve Account at all times prior to maturity. See "Terms and Conditions of the Bonds – Covenants – Interest Reserve."

For a more detailed description of the Bonds, see "Terms and Conditions of the Bonds" beginning on page 116.

Investing in the Bonds involves risks. See "Risk Factors" beginning on page 15.

The Original Bonds are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the New Bonds on, the SGX-ST are not to be taken as an indication of the merits of the Company or the New Bonds. For so long as the New Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the New Bonds will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies).

The New Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the New Bonds are being offered and sold by the Sole Lead Manager (as defined herein) only outside the United States in compliance with Regulation S under the Securities Act ("Regulation S"). For a description of certain restrictions on the resale or transfer of the New Bonds, see "Transfer Restrictions."

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) (the "NDRC Notice") promulgated by National Development and Reform Commission (the "NDRC") of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Bonds with the NDRC and obtained a certificate from the NDRC dated January 16, 2017 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the New Bonds to be reported to the NDRC within 10 working days after the issue date of the New Bonds.

The Bonds have been rated "BB-" by S&P Global Ratings ("S&P"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Investors should evaluate the rating independently of other rating (if any) of the Bonds or other securities of the Company.

It is expected that the delivery of the New Bonds will be made on or about June 23, 2017 through the book-entry facilities of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream") against payment therefor in immediately available funds.

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager

Barclays

The date of this offering memorandum is June 20, 2017

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This offering memorandum does not constitute an offer to sell to, or a solicitation of an offer to buy from, any person in any jurisdiction to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering memorandum or that the information contained in this offering memorandum is correct as of any time after that date.

This offering memorandum is not a prospectus for the purposes of the European Union's Directive 2003/71/EC (and any amendments thereto) as implemented in member states of the European Economic Area (the "EU Prospectus Directive"). This offering memorandum has been prepared on the basis that all offers of the New Bonds made to persons in the European Economic Area will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus in connection with offers of the New Bonds.

IN CONNECTION WITH THIS OFFERING, BARCLAYS BANK PLC, AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NEW BONDS IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE BONDS. AS A RESULT, THE PRICE OF THE NEW BONDS MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME.

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the New Bonds. You should read this offering memorandum before making a decision whether to purchase the New Bonds. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the New Bonds. By purchasing the New Bonds, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section headed "Transfer Restrictions" below.

The Sole Lead Manager (as defined herein) has not separately or independently verified the information contained in this offering memorandum. No representation or warranty, express or implied, is made by Barclays Bank PLC (the "Sole Lead Manager"), Bank of Communications Trustee Limited (the "Trustee"), the Agents (as defined in the Terms and Conditions of the Bonds) or any of their respective directors, officers, employees, affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Sole Lead Manager or any person affiliated with the Sole Lead Manager in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the New Bonds (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our company and the terms of the offering of the New Bonds) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the Sole Lead Manager.

The New Bonds have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

We are not, and the Sole Lead Manager is not, making an offer to sell the New Bonds in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the New Bonds may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Sole Lead Manager to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the New Bonds and distribution of this offering memorandum, see "Transfer Restrictions" and "Plan of Distribution" below.

This offering memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. None of the Company, the Sole Lead Manager, the Trustee, the Agents or our or their respective directors, officers or advisors are making any representation to you regarding the legality of an investment in the New Bonds by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the New Bonds.

We reserve the right to withdraw the offering of the New Bonds at any time, and the Sole Lead Manager reserves the right to reject any commitment to subscribe for or purchase the New Bonds in whole or in part and to allot to any prospective purchaser less than the full amount of the New Bonds sought by such purchaser. The Sole Lead Manager and certain related entities may acquire for their own account a portion of the New Bonds.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY AND FINANCIAL INFORMATION PRESENTATION

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms the "Company," the "Group," "GOME," "we," "us," "our" and words of similar import, we are referring to GOME Electrical Appliances Holding Limited itself or to GOME Electrical Appliances Holding Limited and its consolidated subsidiaries, as the context requires.

Market data and certain industry forecasts and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Sole Lead Manager or our or its directors and advisors, and neither us, the Sole Lead Manager nor our or its directors, officers, employees and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

The information and statistics set forth in this offering memorandum relating to the PRC and the retail industry in the PRC were taken or derived from various government and private publications. Due to possibly inconsistent collection methods and other problems, the information and statistics herein may be inaccurate and should not be unduly relied upon.

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.9430 to US$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2016, and all translations from Hong Kong dollars into U.S. dollars were made at the rate of HK$7.7534 to US$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2016. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars and Hong Kong dollars, or vice versa, at any particular rate or at all. For further information relating to the exchange rates, see "Exchange Rate Information."

In this offering memorandum, references to "US$" and "U.S. dollars" are to United States dollars, the official currency of the United States of America (the "United States" or "U.S."); references to "HK$" and "H.K. dollars" are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC ("Hong Kong" or "HK"), references to "RMB" or "Renminbi" are to Renminbi, the official currency of the People's Republic of China; references to "Macau" are to the Macau Special Administrative Region of the PRC; references to the "PRC government" are to the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or, where the context requires, any of them; and references to the "PRC" and "China" are to the People's Republic of China and, for the purposes of this offering memorandum, do not include Hong Kong, Macau or Taiwan.

Our financial statements are prepared in accordance with International Financial Reporting Standards (the "IFRS") which differ in certain respects from generally accepted accounting principles in certain other countries.

Unless the context otherwise requires, references to "2014," "2015" and "2016" in this offering memorandum means our financial years ended December 31, 2014, 2015 and 2016, respectively.

"Anxun Logistics" means Anxun Logistics Co., Ltd., which is principally engaged in the provision of logistics services business, a member of the Parent Group.

"Artway" means Artway Development Limited and its subsidiaries that were acquired by us and became our wholly-owned subsidiaries on March 31, 2016.

"B2B2C" means the Business to Business to Consumer.

"B2C" means the Business-to-Consumer.

"Board of Directors" or "Board" means the board of Directors of the Company.

"CAGR" means compound annual growth rate.

"Cellstar" means Shaanxi Cellstar Telecommunication Retail Chain Company Limited that was acquired by us and became our wholly-owned subsidiary in 2007.

"China Paradise" means China Paradise Electronics Retail Limited which was acquired by our company in 2006.

"Controlling shareholder" has the meaning ascribed to it in the Listing Rules (as defined below).

"Corporate Bonds" mean Public Corporate Bonds and Non-Public Corporate Bonds.

"Dazhong" means Beijing Dazhong Home Appliances Retail Co., Ltd that was acquired by us and became our wholly-owned subsidiary in March 2016.

"Differentiated products" mean the products for which we have obtained the exclusive retail right from our suppliers and/or we have the pricing right.

"Director(s)" mean the director(s) of the Company.

"ECP" means Enterprise Cloud Platform.

"EIT Law" means the Enterprise Income Tax Law of the PRC, which came into effect on January 1, 2008.

"ERP" means the Enterprise Resource Planning.

"Euromonitor" means Euromonitor International Limited, a market research firm which engages in the provision of international market intelligence including consumer products, services and lifestyles.

"F2C" means Factory to Customer.

"First-tier cities" mean Beijing, Shanghai, Shenzhen and Guangzhou.

"First-tier Market" means the market covering most of the first- and second-tier cities and also some of the third- and fourth-tier cities where our retail stores are located and such retail stores' annual sales revenue generally exceeds RMB150 million (US$21.6 million).

"GMV" means gross merchandise volume.

"GOME Ruidong" means Beijing GOME Ruidong e-Commerce Co., Ltd., a member of the Parent Group.

"iResearch" means iResearch Consulting Group, a market research and consulting firm which engages in the provision of Chinese market intelligence including e-commerce, Internet media and other new economic fields.

"JL" means Jinli Supply Chain Management.

"Listing Rules" mean the rules governing the listing of securities on the Stock Exchange of Hong Kong Limited.

"LMIS" means Logistics Management Information System.

"MTC" means Shenzhen MTC Co., Ltd, one of our cooperative partners in joint development of Internet TV – "Fengxing TV."

"Non-Public Corporate Bonds" mean our 5.67% domestic non-public corporate bonds due 2022 issued on December 13, 2016 in the aggregate principal amount of RMB4,000,000,000.

"O2O" means online to offline.

"Oriental Pearl" means Oriental Pearl Radio & TV Tower, one of our cooperative parties in joint development of Internet TV – "Fengxing TV."

"Parent Group" means a group of companies, other than our Group, controlled or more than 50% equity interest of which is owned by Mr. Wong Kwong Yu, our controlling shareholder, and principally engaged in retail and logistic businesses, among other things.

"PDA" means Personal Digital Assistant.

"Public Corporate Bonds" mean a series of domestic public corporate bonds we issued in three tranches, including 4.00% domestic corporate bonds due 2022 issued on January 11, 2016 in the aggregate principal amount of RMB3,000,000,000, 4.00% domestic corporate bonds due 2022 issued on February 1, 2016 in the aggregate principal amount of RMB300,000,000, and 4.50% domestic corporate bonds due 2022 issued on May 12, 2016 in the aggregate principal amount of RMB1,700,000,000.

"SAFE" means the PRC State Administration of Foreign Exchange (中國國家外匯管理局), the PRC government agency responsible for matters relating to foreign exchange administration.

"Second-tier cities" mean the capitals of provinces in the PRC (excluding Guangzhou), municipalities under the direct administration of the PRC central government (excluding Shanghai and Beijing), and the capitals of the autonomous regions in the PRC.

"Second-tier Market" means the market covering the cities where our retail stores are located other than those in the First-tier Market.

"Third- and fourth-tier cities" mean the cities other than first-tier cities and second-tier cities in the PRC.

"SFO" means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time.

"Share" means, unless the context indicates otherwise, an ordinary share, with a nominal value of HK$0.025, in our share capital.

"SMG"/"Wenguang" Group means Shanghai Media Group, one of our cooperative parties in joint development of Internet TV – "Fengxing TV."

"sq.m." means square meters(s).

In this offering memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

FORWARD-LOOKING STATEMENTS

This offering memorandum includes "forward-looking statements" that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include statements relating to:

- our business, financing and operating strategies;
- our capital expenditure and expansion plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- various business opportunities that we may pursue;
- any prospective financial information regarding our businesses;
- availability and costs of bank loans and other forms of financing;
- our dividend policy;
- the regulatory environment of our industry in general;
- changes in political, economic, legal and social conditions in China, including the specific policies of the PRC central and local governments affecting the markets where we operate;
- changes in competitive conditions and our ability to compete under these conditions;
- changes in currency exchange rates;
- effect of competition on the demand for and prices of the products we offer and our ability to compete;
- our ability to strengthen or omni-channel platform, including offline retail stores, online sales channels and mobile micro shops; and
- other factors beyond our control.

In some cases, you can identify forward-looking statements by such terminology as "believe," "expect," "aim," "intend," "will," "may," "anticipate," "seek," "should," "estimate" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and elsewhere in this offering memorandum. We caution you not to place undue reliance on these forward-looking statements which reflect our management's view only as of the date of this offering memorandum. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering memorandum might not occur.

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Bonds. You should read the entire offering memorandum, including the section entitled "Risk Factors" and our consolidated financial information and related notes thereto, before making an investment decision.

OVERVIEW

We are one of China's largest electrical appliance and consumer electronics retailers in terms of total retail sales in 2015. Our principal business is the sale of electrical appliances and consumer electronic products through a network of retail stores and e-commerce platforms. We are a one-stop solution provider to customers in electrical appliance and consumer electronics industry in China. We offer a diversified range of products to all of our target customer groups. Our scale, leadership positions, breadth of businesses and diversified distribution channels have allowed us to develop strong, long-standing relationships with our suppliers and enjoy economies of scale. Leveraging our 30 years of retailing experience, we have also successfully developed an efficient supply chain management system that fully integrates our nationwide logistics, warehousing and after-sales functions. In line with our "Total Retail Strategy" launched in 2014 and through providing a seamless shopping experience regardless of the channel customers choose, we target to become a leading omni-channel retailer in China.

We were the largest player in the store-based electronics and appliance specialty retail industry in China with a 10.2% market share in 2015, the largest player in the store-based non-grocery specialty retail industry in China with a 1.6% market share in 2015, and the third largest store-based retailer in China with a 0.8% market share in 2015, according to Euromonitor and in terms of total retail sales. We are one of the leading B2C e-commerce retailers in China in terms of total retail sales in 2015, according to iResearch. We have also been a top two retail chain operator in China, having been ranked first in 2014 and second in both 2013 and 2015 in terms of total retail sales, according to China Chain Store & Franchise Association and the list of "The Top 100 Retail Chain Operators in China" published annually. Founded 30 years ago, we have built "GOME" into a brand name that we believe is among the best-known and trustworthy in the industry in China today. Our strong brand recognition is evidenced by our numerous industry accolades, including "Top Ten Chinese Commercial Brands 2016" at the 11th China Retailers Convention, "Top 500 Chinese Enterprises in 2016" by China Enterprise Confederation for 13 consecutive years (2004-2016), "2016 Top 500 Asian Brands" at the 11th Asian Brand Ceremony, "China's Top 100 Most Valuable Brand" by R&F Global Ranking Information Group Limited for ten consecutive years (2007-2016) with an estimated brand value of approximately RMB76.9 billion in 2016, "Top 10 Asian Most Trustworthy Brand" by Asia Brand Association in 2013, "The Most Popular Retail Brand of The Year" and "Most Popular Consumer Electronic Store of The Year" by China Electronic Commerce Association and China Online Retail Top 100 Review Committee in 2012 and 2011, and "50 Best Chinese Brands in 2010" by Forbes and Interbrand.

We offer a wide range of electrical appliance and consumer electronic products that can be broadly categorized into audio visual products, air conditioners, refrigerators and washing machines, telecommunication products, small electrical appliances, computers and digital and information technology products. We source our merchandise from well-known, high quality suppliers both in the PRC and internationally, including, among others, Haier, Gree, Apple, Samsung, Midea, TCL, Hisense, Skyworth, HUAWEI, Sony and OPPO. Leveraging our scale and long-term cooperative relationships with such suppliers, we are able to achieve economies of scale and obtain what we believe to be favorable terms, which allow us to control our procurement costs and manage our working capital.

We conduct our sales through a comprehensive omni-channel retail sales platform consisting of an extensive nationwide network of retail stores, e-commerce shopping website, mobile applications and micro shop networks. As of December 31, 2016, we operated a network of 1,628 stores, of which 362 were flagship stores, 501 were standard stores and 765 specialized stores, spanning 30 provinces and autonomous regions and 428 cities across China, covering first and second tier cities as well as other lower tier cities across all provinces and autonomous regions in China, other than Tibet. In addition to the offline network of stores, we also rely on various online platforms to conduct sales, comprising primarily GOME-on-line, a comprehensive B2C shopping website, and "GOME TOGO" mobile micros shops, through which our sales staff advertise and promote merchandise sold by GOME on social network to extend customer reach and further increase their interaction with customers.

We have established an efficient supply chain management system that primarily encompasses procurement, logistics, warehousing and after-sales services. Not only is the supply chain core to the day-to-day operations, we have continued to generate revenue and profitability from our existing supply chain infrastructure, including from warehousing and after-sales services. As of December 31, 2016, our logistics network covered approximately 95.5% of China's total prefecture level cities, approximately 91.0% of China's total county level cities and approximately 71.0% of China's total towns nationwide and we have built warehouses in Xi'an, Ningbo, Shenyang, Chengdu, Shanghai and Guangzhou during the year of 2016. We have also established a nationwide after-sales network which comprised, as of December 31, 2016, 199 local after-sales branches and over 2,000 third-party service providers, 24 hour hotline services, and "GOME House Manager," an O2O service platform launched in April 2016.

Historically, we have entered into strategic partnerships with leading suppliers, e-commerce operators and overseas retailers to further increase customer traffic, retail sales and differentiated product offering. We completed the acquisition of Artway in March 2016. The acquisition has successfully transformed us from a regional player to one of the leading national players in retail, logistics, warehousing and after-sales. The acquisition has effectively expanded our market share, and is expected to continue to bring benefits to us, including, among other things, (i) providing further growth opportunities in the Second-tier Markets; (ii) achieving cost savings and increasing operating efficiency through the integration of our retail, logistics, warehousing, information technology and human resources platforms; and (iii) enhancing our corporate governance as a result of reduced connected party transactions, a more simplified corporate structure and reorganization of the nomination committee by increasing representatives from independent Board of Directors.

In 2014, 2015 and 2016, our revenue was RMB60,359.8 million, RMB64,595.1 million and RMB76,695.0 million (US$11,046.4 million), respectively; and our profit attributable to owners of the parent for the same periods amounted to RMB1,279.8 million, RMB1,208.0 million and RMB325.1 million (US$46.8 million), respectively.

COMPETITIVE STRENGTHS

We believe the following strengths differentiate us from other industry participants and have enabled us to compete effectively in our industry:

- leading market position supported by strong brand recognition, customer loyalty and diversified product offering;
- extensive nationwide omni-channel sales platform;
- efficient supply chain management;
- economies of scale coupled with stringent cost control management;
- proven track record underpinned by prudent financial management policies; and
- experienced management team and transparent corporate governance.

BUSINESS STRATEGIES

Through "Omni-Channel, New Scenario and Strong Linkage" ("全渠道、新場景、強鏈接"), our goal is to become a leading omni-channel retailer with a dominant market position in electrical appliance and consumer electronics retail industry in China. We believe our strong brand name, efficient supply chain and nationwide retail network have laid a strong foundation for us to achieve our goal. We plan to solidify our market position across channels and regions in China, achieve stable growth and further strengthen our profitability through implementing the following strategies in our offline, online and supply chain platforms:

- optimize offline retail sales network and increases sales contribution from Second-tier Market;
- upgrade and remodel stores to stimulate traffic and consumption;
- increase sales contribution from differentiated and overseas product offerings;
- prudently expand our online operations through increasing product offerings online, expansion of "GOME TOGO," partnership and marketing events;
- continue to expand our presence in after-sales and third party warehousing; and
- continue to invest in supply chain and information technology infrastructure to improve sales and efficiency.

RECENT DEVELOPMENTS

A Connected Transaction with Parent Group Companies

On January 23, 2017, Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. (北京匯海天韻商務諮詢有限公司), our indirect wholly owned subsidiary, entered into an acquisition agreement with a number of companies of the Parent Group (the "Vendors"), according to which, we have agreed to acquire a 60% equity interest in Meixin Network Technology Company Limited (美信網絡技術有限公司) ("Meixin") from the Vendors at an aggregate consideration of RMB900 million (US$129.6 million). Meixin is a PRC company primarily engaged in the business of mobile social data platform with data-mining technology. Meixin's core product is GOME Plus, an application based on the "Social + Commerce + Benefit Sharing" model. Through such acquisition, we aim to, leveraging Meixin's technology and experience on consumer data, further integrate offline and online sales channels, enhance online-offline shopping experience and strengthen customer loyalty.

Proposed Change of Company Name

In light of growing convergence between online and offline retail, which has been shaped by new consumer behavior, our Company is transforming itself from an "appliance retailer" to an integrated provider of products and services. As such, the board of directors of our Company proposed to change the English name of the Company from "GOME Electrical Appliances Holding Limited" to "GOME Retail Holdings Limited" and to adopt the Chinese name "國美零售控股有限公司" for identification purpose in place of its current Chinese name "國美電器控股有限公司" in May 2017. The change of the Company name is subject to the passage of a special resolution by our shareholders at a special general meeting and the new English name being entered in the register of companies by the Registrar of Companies in Bermuda. Our shareholders have passed the special resolution approving the proposal of changing company name at the special general meeting held on June 12, 2017. We believe that the change of Company name will better reflect our current business focus and future strategies. The proposed new English and Chinese names will also provide the Company with a more defined corporate image and identity, which we believe will benefit our future development.

Recent Financial Information

According to the unaudited and unreviewed financial statements prepared in compliance with IFRS, for the three months ended March 31, 2017, we recorded revenue of approximately RMB17,392.0 million (US$2,505.0 million), gross profit of approximately RMB2,494.9 million (US$359.3 million) and net profit of approximately RMB59.5 million (US$8.6 million). Such financial information has not been subject to an audit or review and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors must exercise caution when using such data to evaluate our financial condition and results of operations. Such financial information for the three months ended March 31, 2017 should not be taken as an indication of our expected financial condition or results of operations for the full financial year ending December 31, 2017.

GENERAL INFORMATION

Our Company was incorporated in Bermuda on January 31, 1992 with limited liability. Its shares have been listed on the Hong Kong Stock Exchange since July 2004, under the stock code 00493. Our registered office is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. Our head office is located at Suite 2915, 29th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Our website is http://www.gome.com.hk. Information contained on our website does not constitute a part of this offering memorandum.

THE OFFERING

The following is a brief summary of the offering and is qualified in its entirety by the remainder of this offering memorandum. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Bonds" shall have the same meanings in this summary. For a more complete description of the terms and conditions of the Bonds, see "Terms and Conditions of the Bonds" in this offering memorandum.

Issuer	GOME Electrical Appliances Holding Limited (國美電器控股有限公司).
The Bonds	US$100,000,000 5.0% Bonds due 2020 (the "New Bonds"), to be consolidated into and form a single series with, the US$400,000,000 5.0% Bonds due 2020 (the "Original Bonds", and together with the New Bonds, the "Bonds").
Issue Price	The Bonds will be issued at 100.625% of their principal amount, plus an amount corresponding to accrued interest from, and including March 10, 2017 to, but excluding June 23, 2017.
Form and Denomination	The Bonds will be issued in registered form in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.
New Issue Date.	June 23, 2017.
Interest	The Bonds will bear interest on their outstanding principal amount from and the Issue Date, at the rate of 5.0% per annum, payable semi-annually in arrear on March 10 and September 10 in each year, commencing on September 10, 2017.
Interest Reserve	The Issuer has established a U.S. dollar account (the "Interest Reserve Account") with the Account Bank in the name of the Issuer. On the New Issue Date, the Issuer will, other than in accordance with Condition 4(f) of the Terms and Conditions, deposit into the Interest Reserve Account an amount that, immediately after giving effect to such deposit, the balance of the Interest Reserve Account would not be less than the Specified Balance (as defined in the Terms and Conditions). The Issuer shall maintain, at all times prior to the Maturity Date, an amount not less than the Specified Balance in the Interest Reserve Account, and may apply such funds towards payment of interest due and payable under the Bonds, as further described in Condition 4(f) *(Interest Reserve)* of the Terms and Conditions.

Maturity Date	March 10, 2020.
Status of the Bonds	The Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions) unsecured obligations of the Issuer and shall at all times rank *pari passu* of the Terms and Conditions and without preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) of the Terms and Conditions, at all times rank at least equally with all its other present and future direct, unconditional, unsecured and unsubordinated obligations.
Negative Pledge	The Bonds will contain a negative pledge provision as further described in Condition 4(a) (*Negative Pledge*) of the Terms and Conditions.
Use of Proceeds	The net proceeds of the issue of the Bonds will be used for our business operations overseas and other general corporate purposes overseas. See "Use of Proceeds."
Events of Default	The Bonds will contain certain events of default as further described in Condition 9 (*Events of Default*) of the Terms and Conditions.
Cross-Default	The Bonds are subject to a cross-default provision in respect of present or future indebtedness for or in respect of monies borrowed or any guarantee and/or indemnity thereof of the Issuer or of any of its Subsidiaries in aggregate equals or exceeds US$20.0 million or its equivalent. See Condition 9(c) (*Cross-Default*) of the Terms and Conditions.
Taxation	All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the PRC or Bermuda or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer by or within the PRC at the rate of up to and including 10%, the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer is required to make a deduction or withholding in respect of PRC tax in excess of 10% or any Bermuda deduction or withholding is required, the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in the circumstances set out in Condition 8 (*Taxation*) of the Terms and Conditions.

Final Redemption. . . . . Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.

Redemption for Taxation Reasons . . . . The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) at their principal amount, together with any interest accrued to the date fixed for redemption, if

(A) immediately before giving such notice, the Issuer satisfies the Trustee that:

the Issuer has or will become obliged to pay Additional Tax Amounts as a result of any change in, or amendment to, the laws or regulations of the PRC, Bermuda, Hong Kong, Singapore or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, or the stating of an official position with respect to such laws or regulations (including any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after March 10, 2017; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due, as further described in Condition 6(b) (*Redemption for Taxation Reasons*) of the Terms and Conditions.

Redemption for Change of Control	Following the occurrence of a Change of Control, the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of such holder's Bonds at 101% of their principal amount, together in each case with accrued interest, as further described in Condition 6(c) (*Redemption for Change of Control Triggering Event*) of the Terms and Conditions.
Further Issues	The Issuer is at liberty from time to time without the consent of the Bondholders to create and issue further Securities having the same terms and conditions as the Bonds in all material respects (or in all material respects save for issue date, issue price, the first payment of interest and the timing for complying with the NDRC Post-issue Filing) so as to form a single series with the outstanding Bonds, as the case may be, as further described in Condition 15 (*Further Issues*) of the Terms and Conditions.
Trustee	Bank of Communications Trustee Limited.
Principal Paying Agent	Bank of Communications Co., Ltd. Hong Kong Branch.
Registrar and Transfer Agent . .	Bank of Communications Co., Ltd. Hong Kong Branch.
Account Bank.	Bank of Communications Co., Ltd. Hong Kong Branch.

Clearing Systems	The Bonds will be represented by the Global Certificate registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in this offering memorandum, certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificate.
Clearance and Settlement	The Bonds have been accepted for clearance through Euroclear and Clearstream with Common Code 155617039 and the ISIN of the Bonds is XS1556170394.
Notices and Payment	So long as the Global Certificate is held on behalf of Euroclear and Clearstream, notices to the holders of the Bonds shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Terms and Conditions and shall be deemed to have been given on the date of delivery to such clearing system.
Governing Law.	Hong Kong law.
Listing	The Original Bonds are listed on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering memorandum. Approval in-principle from, admission to the Official List of, and listing and quotation of the New Bonds on, the SGX-ST are not to be taken as an indication of the merits of the Company or the New Bonds. For so long as the New Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the New Bonds will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies).

Selling Restrictions	The New Bonds will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Plan of Distribution" and "Transfer Restrictions".
Ratings	The New Bonds have been rated "BB-" by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
ISIN/Common Code.	ISIN: XS1556170394 Common Code: 155617039

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following table presents our summary financial and other data. The summary consolidated statement of profit or loss data for 2014, 2015 and 2016 and the summary consolidated statement of financial position data as of December 31, 2014, 2015 and 2016 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by Ernst & Young, the independent certified public accountants, and included elsewhere in this offering memorandum. Our financial statements have been prepared and presented in accordance with IFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary financial data below should be read in conjunction with our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

SUMMARY CONSOLIDATED PROFIT OR LOSS AND OTHER FINANCIAL DATA

	For the year ended December 31,			
	2014	2015	2016	
	RMB	RMB	RMB	US$
				(unaudited)
	(in thousands, except for percentages)			
Revenue	60,359,843	64,595,127	76,695,025	11,046,381
Cost of sales	(51,365,601)	(55,082,038)	(66,318,216)	(9,551,810)
Gross profit	8,994,242	9,513,089	10,376,809	1,494,571
Other income and gains	2,162,584	1,994,026	1,964,324	282,922
Selling and distribution expenses	(7,526,591)	(7,791,964)	(9,448,122)	(1,360,813)
Administrative expenses	(1,701,039)	(1,580,572)	(1,979,752)	(285,144)
Other expenses	(604,967)	(768,601)	(751,945)	(108,302)
Profit before finance (cost)/income	1,324,229	1,365,978	161,314	23,234
Finance costs	(46,111)	(43,226)	(234,615)	(33,791)
Finance income	302,026	253,999	231,794	33,385
Profit before tax	1,580,144	1,576,751	158,493	22,828
Income tax expense	(561,976)	(640,257)	(212,688)	(30,634)
Profit/(loss) for the year/period	1,018,168	936,494	(54,195)	(7,806)
Profit/(loss) for the year/period attributable to:				
Owners of the parent	1,279,770	1,207,963	325,139	46,830
Other non-controlling interests	(261,602)	(271,469)	(379,334)	(54,636)
	1,018,168	936,494	(54,195)	(7,806)
Other Financial Data (unaudited)				
EBITDA(1)	1,904,712	2,099,131	838,960	120,835
EBITDA margin(2)	3.2%	3.2%	1.1%	1.1%

Notes:

(1) We calculate EBITDA by adding depreciation and amortization expenses, loss on equity investments at fair value through profit or loss, and fair value gain on derivative financial instruments to profit from operations. EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to shareholders or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, net finance costs and depreciation and amortization. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition.

(2) EBITDA margin is calculated by dividing EBITDA by revenue.

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,			
	2014	2015	2016	
	RMB	RMB	RMB	US$
				(unaudited)
	(in thousands)			
Non-current Assets				
Property and equipment	4,417,234	4,393,245	6,644,941	957,071
Investment properties	601,224	599,832	605,030	87,142
Goodwill	7,145,117	7,145,117	14,324,966	2,063,224
Other intangible assets	265,801	242,363	432,403	62,279
Investments in associates	–	–	17,000	2,449
Entrusted loans	–	–	500,000	72,015
Other investments	217,350	595,013	1,007,046	145,045
Lease prepayments and deposits	311,128	1,423,833	1,521,948	219,206
Deferred tax assets	31,795	40,140	56,251	8,102
Total non-current assets	12,989,649	14,439,543	25,109,585	3,616,533
Current Assets				
Inventories	10,926,399	10,176,004	11,605,958	1,671,604
Trade and bills receivables	267,694	189,439	162,908	23,464
Prepayments, deposits and other receivables	4,797,960	4,245,343	4,731,201	681,435
Due from related companies	227,964	189,694	239,392	34,480
Equity investments at fair value through profit or loss	–	1,029,142	1,333,529	192,068
Pledged deposits	6,072,895	3,880,903	5,382,804	775,285
Cash and cash equivalents	8,794,112	7,437,717	13,236,752	1,906,489
Total current assets	31,087,024	27,148,242	36,692,544	5,284,825
Current Liabilities				
Trade and bills payables	20,880,430	19,290,931	23,898,406	3,442,086
Customer's deposits, other payables and accruals	2,425,413	2,591,986	3,932,511	566,399
Interest-bearing bank loans	3,425,950	971,512	520,164	74,919
Due to related companies	521,213	1,028,149	661,427	95,265
Tax payable	626,151	857,222	1,051,761	151,486
Total current liabilities	27,879,157	24,739,800	30,064,269	4,330,155
Net Current Assets	3,207,867	2,408,442	6,628,275	954,670
Total Assets less Current Liabilities	16,197,516	16,847,985	31,737,860	4,571,203
Non-Current Liabilities				
Bonds payable	–	–	8,849,485	1,274,591
Interest-bearing bank loans	–	–	1,470,050	211,731
Deferred tax liabilities	162,998	159,623	443,098	63,820
Total Non-Current Liabilities	162,998	159,623	10,762,633	1,550,142
Net Assets	16,034,518	16,688,362	20,975,227	3,021,061
Equity				
Equity attributable to owners of the parent:				
Issued capital	423,221	423,268	527,309	75,948
Reserves	16,247,831	17,402,681	21,958,850	3,162,733
Proposed dividends[(1)]	234,864	–	–	–
	16,905,916	17,825,949	22,486,159	3,238,681
Non-controlling interests	(871,398)	(1,137,587)	(1,510,932)	(217,620)
Total Equity	16,034,518	16,688,362	20,975,227	3,021,061

Note:

(1) "Proposed dividend" is no longer listed as an individual line item and has been consolidated into the line item of "reserve" in our financial statements since 2015.

You should carefully consider the risks and uncertainties described below and other information contained in this offering memorandum before investing in the New Bonds. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also materially and adversely affect our business, financial condition or results of operations. If any of the possible events described below occurs, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Bonds, and you could lose all or part of your investment.

Risks Relating to Our Business and Industry

Our business depends significantly on market recognition of our brands. If we are not able to maintain or enhance our brand recognition, our business, financial condition and results of operations may be materially and adversely affected.

We believe our brand image has contributed significantly to the success of our business, and, therefore, maintaining and enhancing the recognition, image and acceptance of our brands are critical to our ability to differentiate our products and services from and to compete effectively with our peers. Our brand image, however, could be jeopardized if we fail to maintain high product quality, pioneer and keep pace with evolving customer preferences, or timely fulfill orders for popular items. In addition, any negative publicity or disputes regarding the products we offer, the suppliers we source merchandises from, the services we provide, our Group or our management could also materially harm our brand image. Furthermore, we maintain and strengthen our brand identity through, among other things, national television and print media advertising as well as inviting celebrities to be our spokespersons. Failure to successfully promote and maintain the image of any of our brands or any negative news with respect to our spokepersons would have a material adverse effect on our business, results of operations and financial condition.

We may not be able to effectively manage our expansion and growth.

Our omni-channel interactive platform has been a critical factor to our business growth and strong operating results. As of December 31, 2016, our offline retail network consisted of 1,628 retail stores across China. Apart from physical retail stores, our comprehensive and integrated omni-channel platform also provides customers with access to our products through (i) GOME-on-line, a comprehensive B2C shopping website, and (ii) "GOME TOGO" mobile micro shops, a new "mobile micro-shop" sales platform. See "Business—Our Omni-Channel Network."

To further increase our market share and grow our business operations, we plan to continue to evaluate the geographic coverage of our current retail stores in the PRC, open different types of retail stores, and optimize our retail stores in the First-tier Market and Second-tier Market by closing down underperforming stores and opening stores at competitive cost. We also plan to continue to explore new online sales formats to enlarge our online customer base. The success of the expansion of our omni-channel platform depends on a number of factors, including, without limitation:

- our ability to identify sites for new stores and successfully negotiate purchase or lease agreements for these sites on terms acceptable to us;

- our ability to identify, and the availability of, suitable strategic acquisition or investment targets;

- the availability of financing for our acquisitions, investments or other strategic transactions;

- our ability to maintain or develop strategic cooperation relationships with domestic and international leading suppliers;

- our ability to respond to the changes in the offline and online retail industry in China;

- the reliability of our online sales platforms including our GOME-on-line and "GOME TOGO" mobile micro shops; and

- the availability of related network infrastructure, such as online payment platforms.

Due to the above and certain other factors, many of which are beyond our control, we may not be successful in our expansion efforts. Even if we are able to expand our omni-channel sales platform, our ability to generate sales or profits from such expanded omni-channel platform may be affected by our ability to, among other things:

- successfully develop and execute specific business strategy for each individual store or online sales format;

- successfully integrate the new stores or online sales format with our existing operations and achieve related synergies;

- maintain adequate management and financial resources for our expanded operations;

- adapt to the evolving competitive environment which may be different from what we are familiar with;

- adapt and grow our operational and management systems, including our supply chain system and information technology systems, to continue to accommodate an expanded network of stores;

- hire, train and retain skilled personnel; and

- effectively control and manage our costs, particularly our procurement costs and expenses related to rent, logistics, human resources and marketing.

We may not be able to achieve our planned expansion objectives. For example, we further expanded our online business in 2016. However, due to a lower profit margin and competitive environment of e-commerce business, we incurred a net loss in 2016. See "Risks Relating to Our Business and Industry – We recorded net loss in 2016 and may continue to incur loss in the future." If we are unable to successfully gain business synergies from new stores, new acquisitions or investments, our ability to grow our business and increase our revenue may be materially and adversely affected. We cannot assure you that we will be able to expand or operate our business on a profitable basis by establishing or acquiring new stores. We enter into discussions from time to time with third parties regarding potential acquisitions or investment targets in the ordinary course of business. However, we cannot assure you that we will be able to identify any attractive acquisition targets or any suitable opportunity for partnerships or alliances, nor can we assure you that we will be able to enter into acquisition, partnership or alliance agreements on terms favorable to us, or at all. Our ability to manage our future growth will also depend on our ability to continue to successfully implement and improve our operational, financial and management systems in the new and evolving competitive markets. Our business growth could strain our managerial, operational and financial resources. Failure to effectively manage our expansion may lead to increased costs, decline in revenue, reduced profitability and limited growth.

We may not be able to identify or offer attractive and popular products or to foresee or adjust our product offerings, in a timely manner, or at all, to changing consumer preferences.

Consumer demands, preferences and lifestyle trends in the PRC and in the local markets where we operate may change from time to time and depend upon various factors, including, among other things, global lifestyle trends, consumption patterns, disposable income, consumer confidence in the economy and other factors beyond our control. Our success depends on our ability to anticipate, identify and respond in a timely manner to these trends. There can be no assurance that our merchandise selection will accurately reflect the prevailing customer demands and preferences at any given time. If we fail to anticipate, identify and respond effectively to changing consumer demands and lifestyle trends in a timely manner, or at all, we may not be able to generate the desired level of sales within our sales network or we may be forced to sell a large amount of inventory at discounted prices, below cost or to even write off such inventory, which, in turn, could materially and adversely affect our business, financial condition and results of operations. In addition, as we rely on our suppliers for the supply of all our products, failure on the part of our suppliers to respond effectively to changing market conditions or any decline in the popularity or quality of any of the existing brands sold in our stores may also adversely affect our business.

Our business depends on a few key suppliers; our financial results will suffer if we cannot secure adequate supplies from these key suppliers on favorable terms.

One of our key strengths is our ability to offer products at competitive prices. Under certain supply agreements between our key suppliers and us, such suppliers have undertaken to guarantee our gross profit margin with respect to specific products supplied and sold and to offer the lowest product prices to us within specific locations where our stores operate. In 2014, 2015 and 2016, approximately 40.9%, 43.0% and 41.5%, respectively, of the goods sold by us were sourced from our top five suppliers. Our supply agreements are generally on annual basis, with an option to renew or extend upon expiration of the term. There can be no assurance that we will be able to successfully negotiate extensions or replacements of these contracts on favorable terms, or at all. Failure to extend or replace our agreements with any of such suppliers may have a material adverse effect on our business, financial condition and results of operations.

Furthermore, the credit terms contained in the supply agreements with our suppliers and the credit terms of our banking facilities could affect our liquidity position and working capital position. Under our supply agreements, most of our suppliers have granted us favorable credit terms in exchange for, among other things, receiving acceptance drafts issued by banks to get more available funds when settling the invoices with them. The issuing banks currently require an upfront pledge over our accounts with such banks, with the remainder to be settled upon the expiry of such bank acceptance drafts. We rely heavily on these favorable credit terms granted by our suppliers and issuing banks in order to conserve our working capital. There can be no assurance that such suppliers or issuing banks will be able or willing to continue offering these favorable credit terms. If such suppliers or issuing banks were to discontinue offering such favorable credit terms, our results of operations and financial condition will be adversely affected.

We face increasing acquisition and leasing cost of retail space at prime locations, and we may not be able to find suitable locations for new stores on commercially acceptable terms, if at all.

Our performance depends, to a significant extent, on the location of our stores. When selecting a site for a store, we take into account various factors, including:

- whether it is located in a central or prime shopping district;
- its convenience and accessibility for our target consumers;
- the expected pedestrian traffic;
- the size of the available space;
- the availability of supporting facilities, including parking lots; and
- competition in the surrounding area.

We secure prime locations for our stores either through ownership or long-term leases. As of December 31, 2016, of our 1,628 retail stores, 39 were owned by us with the most of the remaining under leases for terms ranging from five to ten years. The supply of prime locations for new stores is limited, and competition for these locations is intense. As a result, we expect our cost of securing new retail locations for our new stores, whether through ownership or through long-term leases, may continue to increase. Our ability to purchase or lease suitable properties on terms acceptable to us is critical to the success of our business. We cannot assure you that we will be able to identify and acquire or lease suitable locations on terms commercially acceptable to us or at all. In the event that we encounter difficulties in securing suitable store sites in regions where we operate or plan to expand, our business and growth prospects may be materially and adversely affected.

We may not be able to renew our existing leases for our stores if they are terminated, or when they expire, on terms acceptable to us.

As of December 31, 2016, of the 1,628 stores with an aggregate total GFA of approximately 5.3 million sq.m., we owned 39 stores with an aggregate total GFA of approximately 0.3 million sq.m., while the remaining stores with an aggregate total GFA of approximately 5.0 million sq.m. were under lease. It is important to our business operation that we maintain our existing leases. With respect to certain stores under lease, the lessors were unable to provide property title certificates or other documents evidencing the authorization or consent from the property owners on sub-leasing. In such case, if the property is deemed as an illegally occupied property or a third party objects to the lease, that may affect our ability to continue to lease such property. In the event that any of our leases is terminated for any reason prior to its expiration, we may need to relocate to alternative premises. Relocation of any part of our operations may result in disruptions to our business and significant expenditures, and we cannot assure you we will be able to find suitable premises on commercially reasonable terms in a timely manner, or at all. Furthermore, the leases of certain properties leased from third-party lessors have not been registered with the relevant PRC governmental authorities. Although non-registration of lease agreements will not affect the validity of such lease agreements, we may be subject to penalties imposed by the relevant PRC governmental authorities.

Furthermore, a need to relocate may also arise in the event that we are unable to renew the lease for any leased premises upon its expiration on terms acceptable to us. Upon expiration of the lease agreement for each of the stores, we will need to negotiate the terms and conditions on which the lease agreement may be renewed. We cannot assure you that we will be able to renew our lease agreements on terms and conditions, in particular those regarding the rental price, which are favorable or otherwise acceptable to us, or at all. As a result, we may need to seek alternative premises to relocate our existing stores. We cannot assure you that such alternative premises will be at comparable locations or can be leased on comparable terms.

Uncertainties relating to the growth and profitability of the online retail industry in China could adversely affect our business.

The proportion of online sales in our total sales has increased over the past few years. While online retailing has existed in China since the 1990s, only recently have many online retailers become profitable. The long-term viability and prospects of various online retail business models in China remain relatively untested. The development of the online retail industry in China depends on many factors, many of which are beyond our control, including:

- the growth of Internet, broadband, personal computer and mobile penetration and usage as well as online retailing in China;
- the trust and confidence level of online shoppers in China, as well as changes in customer demographics and customer tastes and preferences;
- the selection, price and popularity of products that we and our competitors offer online;
- the emergence and development of alternative retail channels or business models that better address the needs of end-customers; and
- the development of fulfillment, payment and other ancillary services associated with online purchases.

A decline in the popularity of online shopping or any failure to improve the online shopping experience of end-customers in response to trends and customer requirements may adversely affect our sales, operations and growth prospects.

Furthermore, China's online retail industry is very sensitive to macroeconomic changes, and retail purchases tend to decline during recessionary periods. Many factors that are beyond our control can adversely affect customer confidence and spending, including inflation and deflation, volatility of stock and property markets, interest rates, tax rates and other government policies and unemployment rates, which could in turn materially and adversely affect our growth prospects and profitability.

We recorded net loss in 2016 and may continue to incur loss in the future.

In 2014, 2015 and 2016, our revenue amounted to RMB60,359.8 million, RMB64,595.1 million and RMB76,695.0 million (US$11,046.4 million), respectively. We recorded a net profit of RMB1,018.2 million and RMB936.5 million in 2014 and 2015, respectively, and a net loss of RMB54.2 million (US$7.8 million) in 2016. The primary reason for the net loss in 2016 was increased expenses in relation to our increased marketing efforts in the development of our online retail channel, the profit margin of which is lower than that of offline retail channel, and the renovation and upgrade of our offline retail stores. Our ability to achieve continued profitability depend on, among other things, the expansion of our omni-channel interactive platform, customer demands for the products we offer and the level of customer spending in the PRC, which may be beyond our control and we may not be able to achieve or maintain profitability. We may also continue to incur losses in the future for a number of reasons, including the other risks described in this offering memorandum, and any unforeseen expenses, difficulties, complications, delays and other unknown events related to our business and operations. See "Risks Relating to Our Business and Industry — Our growth and profitability depend on the level of consumer confidence and spending in the PRC."

Future strategic alliances, investments or acquisitions may have a material adverse effect on our business, financial condition and results of operations.

We have, in the past, expanded our sales network and penetrated into new markets through strategic acquisitions, including acquisition of China Paradise in 2006, acquisition of Cellstar in 2007, acquisition of Dazhong in 2015, acquisition of Artway in the first half of 2016 and acquisition of Meixin Network Technology Company Limited in the first quarter of 2017. To extend our customer reach online and expand our online sales platform, we have also established cooperation with INTERPARK, a leading Korean Internet network operator. We may in the future enter into new strategic alliances with various third parties to further expand our business. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counterparty and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have little ability to control or monitor the actions of such third parties. To the extent such third parties suffer negative publicity or harm to their reputations, we may also suffer negative publicity or harm to our reputation by virtue of our association with such third parties, which in turn would negatively affect our business operations.

Moreover, if we are presented with appropriate opportunities, we may invest in or acquire additional assets, technologies or businesses that are complementary to our existing business. Future investments or acquisitions and the subsequent integration of new assets and businesses into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. The costs of identifying and consummating investments and acquisitions may be significant. We may also incur significant expenses in obtaining necessary approvals from relevant government authorities in China and elsewhere in the world in connection with such investments and acquisitions. Acquired assets or businesses may not generate the financial results we expect. In addition, investments and acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. The cost and duration of integrating newly acquired businesses could also materially exceed our expectations. We may also not be able to achieve the desired benefit or synergy as we anticipate. Any such negative developments could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to effectively market our business or if marketing campaigns are ineffective, our revenue may decline and our results of operations could be adversely affected.

Aside from marketing through traditional sales channels, we host a wide variety of promotional campaigns, particularly during holiday periods. We have successfully launched major sales campaigns, such as "March 11 Black Friday," "April 15," "June 17," "September

17" and "December 18" Sale Carnivals to further enhance customer loyalty. We launched a "Crowdfunding Partners Sharing" campaign in the second quarter of 2016 by which consumers could enter a website to participate in crowdfunding before the events start and they can receive a discount on their purchases once the "crowdfunding" goal was hit. Our sales would be adversely affected if we do not successfully promote our offline and online stores. There can be no assurance that our marketing strategies through advertisements, special offers and seasonal promotions will be successful. In addition, such advertising and marketing efforts may be expensive, which may have an adverse effect on our business, results of operations and financial condition.

We rely on third-party logistics service providers to deliver all orders, and on our third-party sellers to deliver a significant number of orders directly. If such service providers or suppliers fail to provide reliable delivery services, our business and reputation may be materially and adversely affected.

We maintain cooperation arrangements with a number of third-party logistics service providers to deliver our products to our customers. We have also entered into logistics services agreements with Anxun Logistics and GOME Ruidong. Under the logistic services agreements, Anxun Logistics and GOME Ruidong have agreed to provide and to procure other member companies of the Parent Group to provide logistics services to our offline and online business for a period of three years from January 1, 2016 to December 31, 2018. See "Business—Logistics and warehousing." In addition, some of our third party suppliers or merchants ship products directly to our customers. Interruptions to or failures in these delivery services by third parties could prevent the timely or proper delivery of our products to customers. These interruptions may be due to events that are beyond our control or the control of such third parties, such as inclement weather, natural disasters, transportation disruptions or labor unrest. In addition, there can be no assurance that we can continue or extend relationships with our current logistics service providers on terms acceptable to us, or that we will be able to establish relationships with new logistics service providers to ensure accurate, timely and cost-efficient services. If there is any breakdown in our relationships with our preferred logistics service providers, we cannot guarantee that no interruptions would occur or that they would not materially and adversely affect our business, prospects and results of operations. Furthermore, as we do not have any direct control over these logistics service providers or the third party suppliers which choose to deliver products directly to our customers, we cannot guarantee their quality of services. If there is any delay in delivery, damage to products or any other issue, we may lose consumers and sales and our brand image may be tarnished.

Any interruption in the operation of our front distribution centers, standalone warehouses, delivery stations or pickup stations for an extended period may have an adverse impact on our business.

Our ability to process and fulfill both online and offline orders accurately and provide high quality customer service depends on the smooth operation of our front distribution centers, standalone warehouses and our delivery and pickup stations. Our supply chain system may be vulnerable to damages caused by fire, flood, power outage, telecommunications failure, break-ins, earthquake, human error and other events. If any of our supply chain system were rendered incapable of operations, then we may be unable to fulfill the orders we have received.

The occurrence of any of the foregoing risks could have a material adverse effect on our business, prospects, financial condition and results of operations.

We are subject to certain risks relating to the warehousing of the products we sell.

Before delivery of products to our stores, we temporarily store them in our warehouses. We maintain insurance to cover financial losses we may sustain as a result of accidents, including fires, in our warehouses. However, if such accidents, including fires, were to occur, causing damage to the products we sell or our warehouses, our ability to supply products to our stores on time could be adversely affected, causing our reputation, financial condition, results or operations or business to be materially and adversely affected. The occurrence of any of these incidents could also require us to make significant unanticipated capital expenditures and delay our delivery of products. Lost sales or increased costs that we may incur due to such disruption of operations and delay in delivery may not be recoverable under our existing insurance policies, and prolonged business disruptions could result in a loss of end-customers. If any one or more of the above risks were to materialize, our financial condition and results of operations may be adversely affected.

Our online market place is subject to risks associated with third-party sellers.

We launched our GOME-on-line market place in April 2011, which provides a sales platform for a wide range of merchandise sold by third party shops. As of December 31, 2016, there were over 2,800 third-party sellers on our online market place. We do not have as much control over the storage and delivery of products sold on our online market place as we do over the products that we sell directly ourselves. Many of our third-party sellers use their own facilities to store their products, and many of them use their own or third-party delivery systems to deliver their products to our customers, which makes it more difficult for us to ensure that our customers get the same high quality service for all products sold on GOME-on-line. If any third-party seller does not control the quality of the products that it sells on our market place, or if it does not deliver the products or delivers them late or delivers products that are materially different from its description of them, or if it sells counterfeit or unlicensed products on our website, or if it sells certain products without licenses or permits as required by the relevant laws and regulations even though we have requested such licenses or permits in our standard form contract with the third-party seller, the reputation of our GOME-on-line market place and our brand may be materially and adversely affected, and we could face claims that we should be held liable for any losses. Moreover, despite our efforts to prevent it, some products sold on our online market place may compete with the products we sell directly, which may cannibalize our online direct sales. Moreover, the supplier relationships, customer acquisition dynamics and other requirements for our GOME-on-line market place may not be the same as those for our online direct sales operations, which may complicate the management of our business.

If we fail to protect our intellectual property rights, our business, financial condition and results of operations could be severely harmed.

The trade names and trademarks we use are vital to our success and future development. We rely on trademark law, company brand name protection policies and agreements with our employees, suppliers, business partners and others to protect the value of our brand name. As of December 31, 2016, we had over 800 trademarks registered in China and three trademarks overseas. Despite the precautions we have taken, we cannot assure you that those procedures will provide effective prevention for unauthorized third party use of our brand name. The protection of intellectual property rights under PRC laws has historically been insufficient as a result of ineffective implementation and enforcement and inconsistent interpretation. There can be no assurance that we will receive effective protection if our trademarks or other intellectual property rights are infringed by third parties.

We do not own the "GOME" trademark, which is licensed to us by the Parent Group.

The "GOME" trademark, a registered trademark in the PRC, is owned by Beijing GOME Electrical Appliance Co., Ltd ("Beijing GOME"), a member of the Parent Group, and as such controlled by Mr Wong Kwong Yu, our controlling shareholder. We and Beijing GOME entered into a Trade Mark License Agreement dated April 30, 2004 (the "Trade Mark License") pursuant to which Beijing GOME licensed the "GOME" trademark to us for use in connection with the retail sale of electrical appliances and consumer electronic products in the PRC at no cost and for the validity period (including any extension period) of the registration of the "GOME" trademark. Pursuant to the Trade Mark License, Beijing GOME has undertaken to take reasonable actions to maintain the registration of its "GOME" trademark. The Trade Mark License would be terminated upon Beijing GOME losing its right to the "GOME" trademark, upon any force majeure, or by mutual agreement by both parties or if a court order is granted to terminate the Trade Mark License. Although Beijing GOME has no right to terminate the Trade Mark License unilaterally for no cause, there is no assurance that Beijing GOME would remain as the registered owner or owner of the "GOME" trademark or that the Trade Mark License would not be terminated as a result of the termination events described above. In the event that the Trade Mark License is terminated upon the occurrence of any of the said termination events or upon Beijing GOME ceasing to be the registered owner or owner of the"GOME" trademark for any reason, we would not be able to continue to use the "GOME" trademark, and consequently, our financial condition as well as results of operations may be materially and adversely affected.

We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.

We source products from domestic and international suppliers. Although we have adopted measures to minimize potential infringement of third parties' intellectual property rights in the course of the sale of products, we may not always be successful. We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate patents, copyrights or other intellectual property rights held by third parties. In addition, there may be other third party intellectual property that is or will be infringed by our products, services or other aspects of our business. In the event that we sell infringing goods at our stores or on our online platforms, or otherwise violate other intellectual property rights held by third parties, we may be found liable for intellectual property violations. In such an event, our business or financial condition may be adversely affected. Likewise, defending intellectual property claims made against us that are without merit would also adversely affect our results of operations.

The products sold on our GOME-on-line market place stores may be subject to third party intellectual property rights.

Third-party sellers on our online market place are separately responsible for sourcing the products they sell on our website. Although we have adopted measures to verify the authenticity and authorization of products sold on our website and avoid potential infringement of third-party intellectual property rights in the course of sourcing and selling products, we may not always be successful.

In the event that counterfeit, unauthorized or infringing products are sold on our website or infringing content is posted on our website, we could face claims that we should be held liable. Irrespective of the validity of third parties' claims, we could incur significant costs and efforts in either defending against or settling such claims. If there is a successful claim against us, we might be required to pay substantial damages or refrain from further sale of the relevant products. Potential liability under PRC law if we negligently participated or assisted in infringement activities associated with counterfeit goods includes injunctions to cease infringing activities, rectification, compensation, administrative penalties and even criminal liability. Any of these events could have a material adverse effect on our reputation, business, results of operations or financial condition.

Failure to maintain optimal inventory level could increase our inventory holding costs or cause us to lose sales, either of which could have a material adverse effect on our business, financial condition and results of operations.

Maintaining optimal inventory level is critical to the success of our business. As of December 31, 2014, 2015 and 2016, the balance of our inventory accounted for approximately 35.1%, 37.5% and 31.6%, respectively, of our total current assets. In 2014, 2015 and 2016, our inventory turnover days were 68 days, 70 days and 60 days, respectively. We are exposed to inventory risks as a result of a variety of factors beyond our control, including changing consumption trends and customer preferences and launches of competing products. Moreover, for stocking purposes we generally estimate demand for the products we sell ahead of the actual time of sale. We cannot assure you that we can accurately predict these trends and events and maintain adequate levels of inventory at all times. An unexpected decrease in the market demand for the products we sell could lead to excessive inventory, and we may be forced to offer discounts or conduct promotional activities to dispose of slow-moving inventory, sometimes at prices below cost, which in turn may adversely affect our business, financial condition and results of operations. On the other hand, inventory under-stock may cause us to lose sales and our business, financial condition and results of operations may also be adversely affected.

Our business relies on the proper operation of our information technology systems, any malfunction of which for extended periods could materially and adversely affect our business.

Our business relies on the proper functioning of our information technology systems. We use our information technology platform, which integrates ERP, PDA, LMIS, JL and ECP systems, to enable us to quickly and efficiently collect and analyze our operational data and information including procurement, sales, inventory, order fulfillment, logistics, customer and membership data and after sales services on a real-time basis. We use our information technology platform to assist us in budgeting, human resources management, inventory control, financial management and retail management. As a result, the contemplated operation of our information technology system is critical for us to monitor the inventory/sales level of our stores and for our stores to place orders with us. We need to constantly upgrade and improve our information technology systems to keep up with the continuous growth of our operations and business. However, our IT systems may not always operate without interruption and may encounter temporary abnormality or become obsolete. As our retail network is highly integrated, any malfunction to a particular part of our information technology system for an extended period of time may result in a breakdown throughout our network and our ability to continue our operations smoothly may be negatively affected, which in turn could adversely affect our business and results of operations.

It is also important that we constantly review our existing IT systems, identify new business needs, provide IT solutions and upgrade our systems. We may not always be successful in developing, installing, running and migrating to new software or systems as required by our business development. Even if we are successful in this regard, significant capital expenditure may be required, and we may not be able to benefit from these types of investment immediately or at all. All of these may have a material adverse effect on our operations and profitability.

Our business depends substantially on the continuing efforts of the members of our senior management and our ability to retain them, as well as on our ability to continue to attract and retain qualified personnel.

Our business depends, to a significant extent, on the capability and expertise of our senior management team members, including our executive directors and other members of our management who have operational experience in the retail business. If one or more of our senior management team members are unable or unwilling to continue in their present positions, we may not be able to identify and recruit suitable replacements in a timely manner, or at all, and the implementation of our business strategies may be affected, which could materially and adversely affect our operations.

Moreover, we rely on our employees, which include qualified administrative, customer services, supervisory and management personnel for our daily operations and business expansion. We cannot assure you that we will be able to continue to attract and retain sufficient skilled and experienced employees in the future. If we fail to recruit, retain or train skilled employees, our growth and business prospects could be adversely affected. In addition, Competition for talent in some areas of the PRC retail industry is intense and qualified individuals can be difficult to recruit. Consequently, we may not be able to easily or quickly replace lost personnel and we may incur additional expenses to recruit, train and retain new hires. Significant increases in employee turnover rates, which is generally high in the PRC retail industry, or significant increases in labor costs, due to competition for talents or changes in labor and healthcare laws, could have a material adverse effect on our results of operations and financial condition.

The interests of our controlling shareholder may conflict with the interests of the holders of the Bonds.

As of the date of this offering memorandum, our controlling shareholders, Mr. Wong Kwong Yu ("Mr. Wong") and Ms. Du Juan beneficially own in the aggregate approximately 50.03% of our issued share capital. Subject to our memorandum and articles of association and applicable laws and regulations, our controlling shareholders will continue to have the ability to exercise a controlling influence on our management, policies and business by controlling the composition of our board of directors, determining the timing and amount of our dividend payments, approving significant corporate transactions, including mergers and acquisitions, and approving our annual budgets. We cannot assure you that our controlling shareholders will cause us to enter into transactions or take, or fail to take, other actions or make decisions that will be in conflict with the best interest of the holders of the Bonds.

We may be unable to obtain external financing on favorable terms, or at all, to fund our ongoing operations, expansions and other obligations.

To fund our ongoing operations, existing and future capital expenditure requirements, acquisition and investment plans and other funding requirements, we need sufficient internal sources of liquidity or access to additional financing from external sources. We principally fund our operations from a combination of cash generated from our business operations, borrowings from banks and proceeds from issuance of equity and debt securities. Our ability to obtain external financing in the future depends on a number of factors that are beyond our control, including market conditions in debt and equity capital markets, investors' perception of our securities, lenders' perception of our creditworthiness, the PRC economy and the PRC regulations that affect the availability and financing costs for retail companies. If adequate funding is not available to us on favorable terms, or at all, it may materially and adversely affect our ability to fund our ongoing operations and other obligations, or to develop or expand our business.

We may be subject to product liability claims relating to defective products provided by suppliers and, as a result, our reputation and operating results may be adversely affected.

According to existing PRC law and regulations, manufacturers, suppliers and retailers who produce or sell defective goods in the PRC shall be liable for the damage or personal injury caused by such products. This renders us liable for loss or injury arising from defective products that we sell at our offline stores or that we sell on our GOME-on-line directly. Pursuant to agreements with our suppliers, almost all of our suppliers are obligated to indemnify us for any claims brought against us concerning products supplied by the suppliers. However, there is no assurance that the suppliers will have adequate financial resources or insurance coverage to perform such indemnification. We therefore cannot assure you that we will be successful in obtaining such indemnity payments or that indemnity payments will fully cover all of our costs associated with the original liability. Even though we have product liability insurance to cover potential liability arising from the use of the products that we sell, product liability insurance in China offers limited coverage compared to coverage offered in many other countries. Furthermore, if we are found to be responsible for damage caused by defective goods, our reputation may be adversely affected, which could lead to a loss of consumer confidence in us and a corresponding reduction in our sales. Such an event is likely to have an adverse effect on our reputation, business, financial condition and results of operations.

Our limited insurance coverage may not cover all losses, which may increase our operational costs.

We maintain different types of insurance policies to cover our operations, including comprehensive asset insurance, public safety liability insurance, automobile liability insurance and product liability insurance to cover potential liability arising from the use of the products that we sell. We do not carry, however, insurance in respect of certain risks that we believe are not insured under normal industry practice in China, or which are uninsurable on commercially acceptable terms, if at all, such as those caused by war and civil disorder. Accordingly, there may be circumstances in which we will not be covered or compensated, in part or at all, for specific losses, damages and liabilities. In addition, we are subject to the risks of losses arising from the misappropriation of cash or other assets by our employees or third parties, which losses may not be sufficiently covered by our insurance policies. Any risk that is not adequately covered by insurance may have an adverse effect on our reputation and profitability.

Threats or potential threats to stores, as well as failure to protect confidential information of our customers and network against security breaches may adversely affect us.

Data theft, information espionage, fraud, theft of goods or cash from our stores or other criminal activities often directed at the retail business, loss of confidential information of our customers or breach of security of computer or communications systems may adversely affect our business by causing us to implement costly security measures in recognition of actual or potential threats, by requiring us to invest significant time and expense developing, maintaining or upgrading our security and information technology systems or by causing us to incur significant costs to reimburse third parties for damages. These activities may also adversely affect our business by reducing consumer confidence in the market and by adversely affecting consumer spending habits. Despite our efforts to secure and maintain our store security, online platform and computer network, security could be compromised, confidential information including customer information could be leaked or system disruptions could occur. This could lead to disruption of operations, loss of sales, customer relationships, reputation and/or profits or cause us to incur significant costs to reimburse third parties for damages.

Our growth and profitability depend on the level of consumer confidence and spending in the PRC.

Our results of operations are sensitive to changes in overall economic and political conditions that affect consumer spending in the PRC. The retail industry, in particular, is very sensitive to broad economic changes, retail purchases tend to decline during economic downturns. There are a number of factors that are beyond our control, including interest rates, recession, inflation and deflation, property prices and availability, consumer credit availability and terms, availability of consumer finance, tax rates and policy and unemployment trends influencing consumer confidence and spending. The domestic and international political environment, including military conflicts and political instability, may also affect consumer confidence and spending and may lead to a general reduction in the level of consumer spending which could in turn materially and adversely affect our growth and profitability.

The electrical appliance and consumer electronics business is highly competitive.

The electrical appliance and consumer electronics retail industry in China is highly competitive. We face competition from other online and offline domestic and international retailers that offer a similar range of products and from direct sales by the brand owners or their authorized distributors, and also indirectly from shopping malls, hypermarkets, specialty retailers, discount stores and other forms of retail business in the areas where we currently operate and where we may enter.

We compete with other electrical appliance and consumer electronics retailers in China based on, among other things:

- the brand recognition and store image;
- the selling price and discount available of the similar or same electrical appliance and customer electronics;
- the location and size of a store;
- the reputation, mix and quality of the brands and products offered;
- the availability of differentiated products;
- the quality of customer service;
- the ability to understand and respond to customer demand in a timely manner; and
- the ability to build and maintain customer loyalty.

Some of our competitors may have more financial and managerial resources than we do. A number of different competitive factors could have a material adverse effect on our results of operations and financial condition in the current markets in which we operate, including, among other things:

- adoption of aggressive pricing strategy, trendy brands or products mix, innovative store formats or retail sales methods by our existing competitors;
- entry by new competitors into our current markets and increased competition from international players;
- increased operational efficiencies of competitors; and
- our suppliers establishing their own stores.

To the extent that we fail to compete successfully in our existing and new markets due to any of these factors, our business and results of operations may be adversely affected.

A prolonged economic downturn could materially affect our business by reducing consumer spending on electrical appliance and consumer electronic products.

We depend on consumers voluntarily spending discretionary funds on electrical appliance and consumer electronic products. In an economic downturn characterized by higher unemployment, lower corporate earnings, lower business investment and lower discretionary spending by consumers may be materially and adversely affected. The global financial crisis of 2008 caused a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, an unprecedented level of intervention from the governments, decreased consumer confidence, overall slower economic activity and extreme volatility in credit, equity and fixed income markets. The recent referendum by British citizens to leave the European Union also caused significant turmoil in the global financial markets. In addition, China is in the process of seeking to transform its economy to become one that is less dependent on infrastructure investments and more driven by consumption. While the ultimate outcome of these events cannot be predicted, a decrease in economic activity in China could adversely affect demand for our retail business, thus reducing our revenue. A decline in economic conditions could reduce customers' spending on the products we sell. In addition, financial institution failures may cause us to incur increased expenses or make it more difficult either to utilize our existing debt capacity or otherwise obtain financing for our operations or investing activities (including the financing of any future acquisitions).

Risks Relating to the PRC

Adverse changes in the PRC's political, economic and social conditions, laws, regulations and policies could have an adverse effect on overall economic growth in China, which may adversely affect our business.

Substantially all of our business and operations are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are, to a significant extent, subject to economic, political and social developments in China. The Chinese economy differs from the economies of most other countries in many respects, including the extent of government intervention in the economy such as government control of foreign exchange and the allocation of resources, the general level of economic development and growth rates. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, The PRC government also continues to play a significant role in regulating industry development by imposing industrial policies, exercising significant control over China's 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. Certain measures taken by the PRC government to guide the allocation of resources may benefit the overall economy of China but may, however, also have a negative effect on us. For example, our business, financial condition, results of operations and prospects may be adversely affected by government control over capital investments, changes in tax regulations that are applicable to us, changes in interest rates and statutory reserve rates for banks or government control in bank lending activities.

PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC operating subsidiaries.

We may make loans to our PRC subsidiaries. Loans to or investments in our PRC subsidiaries are subject to approval by or registration with relevant governmental authorities in China. We may also decide to finance our subsidiaries by means of capital contributions. According to the relevant PRC regulations on foreign-invested enterprises in China, depending on the total amount of investment, capital contributions to our PRC operating subsidiaries may be subject to the approval of the PRC Ministry of Commerce or its local branches. We may not obtain these government approvals on a timely basis, if at all, with respect to future capital contributions by us to our subsidiaries. If we fail to receive such approvals, our ability to use the proceeds of the Bonds and to capitalize our operations in China may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

Our business operations are regulated by PRC laws and any failure of us to comply with applicable laws, rules and regulations, including obtaining or maintaining necessary qualifications, permits and approvals for our operations may adversely affect our business, financial condition and results of operations.

We need to obtain approvals, certificates, licenses and permits from different governmental authorities and to comply with procedural requirements in order to carry on our business activities under PRC law and regulations. For example, we shall obtain environment licenses, approvals or filings, fire protection acceptance and public sanitary certificates for the operation of certain stores according to PRC law and regulations. As of the date of this offering memorandum, certain stores of us have not been required by relevant authorities to apply for the above approvals, certificates, licenses or permits. Governmental authorities in the PRC have broad discretion in implementing and enforcing applicable laws and regulations and in determining the grant of approvals, licenses, permits and certificates necessary for conducting the business. For this reason, there are significant uncertainties in the interpretation and implementation of PRC laws, rules, regulations, policies and measures. Moreover, verbal clarifications given by the governmental authorities may be inconsistent with the regulations concerned, which consequently could increase our compliance risk. Any failure to obtain necessary approvals, licenses or permits in a timely manner could result in delay or suspension of our business operations and result in regulatory or administrative penalties.

PRC governmental authorities from time to time amend existing laws and regulations and release new policies which may affect our business operations. We may be unable to comply with new laws, regulations or policies or fails to respond to any changes in the regulatory environment in a timely manner. In addition, to ensure the restrictions and conditions of relevant business permits, licenses and certificates are fulfilled, governmental authorities normally conduct regular or special inspections, investigations and inquiries. If there is any material non-compliance of our Group or our business, our permits, licenses and certificates may be suspended or revoked, and we may receive fines or other penalties, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Governmental control over currency conversion may limit our ability to utilize our cash effectively.

Substantially all of our revenue is denominated in Renminbi. The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from the SAFE. But approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. This could affect the ability of our PRC subsidiaries to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to satisfy our obligations under the Bonds.

Changes in foreign exchange regulations may adversely affect our ability to transfer funds and subsequently impact the results of our operations.

We currently receive most of our revenues from operations in the PRC and such revenues are denominated in Renminbi. The PRC government regulates the conversion between Renminbi and foreign currencies. Over the years, the PRC government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade and service related foreign exchange transactions and payment of dividends. However, foreign exchange transactions by our PRC subsidiaries under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC governmental authorities. There can be no assurance that these PRC laws and regulations on foreign investment will not cast uncertainties on our financing and operating plans in China. Under current foreign exchange regulations in China, subject to the relevant registration at the SAFE, we will be able to pay dividends in foreign currencies, without prior approval from the SAFE, by complying with certain procedural requirements. However, there can be no assurance that the current PRC foreign exchange policies regarding debt service and payment of dividends in foreign currencies will continue in the future. Changes in PRC foreign exchange policies might have a negative impact on our ability to service our foreign currency-denominated indebtedness and to distribute dividends to our shareholders in foreign currencies.

In addition, on August 29, 2008, the SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or the Circular 142, a notice with respect to the administration of Renminbi converted from foreign exchange capital contributions of a foreign invested enterprise. As a result, unless otherwise permitted by PRC laws or regulations, such converted amount can only be applied to activities within the approved business scope of the relevant foreign invested enterprise and cannot be used for domestic equity investment or acquisition.

On March 30, 2015, the SAFE issued the Circular on Reforming the Administration Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises, or Circular 19, which became effective on June 1, 2015 and replaced Circular 142. Circular 19 provides that, the conversion of the Renminbi capital from foreign currency registered capital of foreign-invested enterprises may be at foreign-invested enterprises' discretion, which means that the foreign currency registered capital of foreign-invested enterprises for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry of monetary contribution has been registered) can be settled at the banks based on the actual operational needs of the enterprises. However, Circular 19 maintains the restriction that Renminbi converted from foreign exchange capital contributions of foreign invested enterprises can only be applied to activities within the approved business scope of the relevant foreign invested enterprise.

There are significant uncertainties under the EIT Law relating to the withholding tax liabilities of our PRC subsidiaries.

Under the EIT Law, the profits of a foreign invested enterprise arising in or after 2008 and which are later distributed to its immediate holding company outside the PRC will be subject to a withholding tax rate of 10% if the immediate holding company is determined by the PRC tax authority to be a non-resident enterprise for PRC tax purposes, unless there is an applicable tax treaty with the PRC that provides for a different withholding arrangement. Pursuant to a special arrangement between Hong Kong and the PRC, such rate is lowered to 5% if a Hong Kong resident enterprise owns over 25% of a PRC company. However, according to the Circular on State Administration of Taxation on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties, which became effective on October 1, 2009, the 5% tax rate does not automatically apply. Approvals from competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments relating to dividends under relevant taxation treaties. According to a tax circular issued by the State Administration of Taxation in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate enjoyed by the relevant offshore entity. In addition, under the EIT Law, enterprises established under the laws of jurisdictions outside of China with their "de facto management bodies" located within China may be considered to be PRC resident enterprises for tax purposes.

If we are deemed as a PRC "resident enterprise," interest payable to certain "non-resident enterprise" holders on the Bonds may be subject to PRC withholding tax at a rate of 10%, or a lower rate for holders who qualify for the benefits of a double-taxation treaty with China, and capital gains realized by holders of Bonds may be treated as income derived from sources within China and be subject to a 10% PRC withholding tax. In addition to the uncertainty as to the application of the new "resident enterprise" classification, there can be no assurance that the PRC government will not amend or revise the taxation laws, rules and regulations to impose stricter tax requirements, higher tax rates or apply the EIT Law, or any subsequent changes in PRC tax laws, rules or regulations retroactively. As there may be different applications of the

EIT Law and any amendments or revisions, comparisons between our past financial results may not be meaningful and should not be relied upon as indicators of our future performance. If such changes occur and/or if such changes are applied retroactively, such changes could materially and adversely affect our results of operations and financial condition.

Uncertainties with respect to the PRC legal system could have an adverse effect on our operations.

The PRC legal system is based on written statutes. Unlike under common law systems, decided legal cases have little value as precedents in subsequent legal proceedings. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular. These laws, regulations and legal requirements are relatively new and are often changing, and their interpretation and enforcement involve significant uncertainties that could limit the reliability of the legal protections available to us. For example, we have registered the issuance of the Bonds with the NDRC with reference to the NDRC Notice and are required to file a post-issuance report with the NDRC within 10 working days in the PRC pursuant to the registration certificate. As the NDRC Notice is a new regulation, there are still uncertainties regarding its interpretation, implementation and enforcement by the NDRC. If we fail to complete such filing in accordance with the relevant requirements, due to any change in the relevant regulation we may be subject to penalties or other enforcement actions by relevant PRC government authorities. For another example, we may have to resort to administrative and judicial proceedings in order to enforce the legal protections that we enjoy either by law or contract. As PRC administrative and judicial authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcomes of administrative and judicial proceedings and the level of legal protections we enjoy. These uncertainties may impede our ability to enforce the contracts into which we have entered with our business partners, customers and suppliers. In addition, we cannot predict the effects of future developments in the PRC legal system. We may be required in the future to procure additional permits, authorizations and approvals for our existing and future operations, which may not be obtainable in a timely fashion or at all. An inability to obtain such permits or authorizations may have an adverse effect on our financial condition and results of operations.

It may be difficult to serve process within the PRC or to enforce any judgment obtained from non-PRC courts against us or our Directors.

Substantially all operating subsidiaries are incorporated in the PRC, substantially all of our Directors currently reside within the PRC and substantially all of our assets are located within the PRC. The PRC does not currently have treaties providing for the reciprocal recognition or enforcement of civil and commercial judgments of courts located in the United States, the United Kingdom, Singapore, Japan and most other western countries. An Arrangement between China and Hong Kong on Reciprocal Recognition and Enforcement of Judgments of Civil and Commercial Cases under the Jurisdictions as Agreed to by the Parties Concerned was signed on July 14, 2006 and came into effect on August 1, 2008, subject to many restrictions on such arrangement. As a result, it may not be possible for investors to effect service of process upon our subsidiaries or our Directors resident in the PRC pursuant to the authority of non-PRC courts. Further, the recognition and enforcement in the PRC of judgments of courts outside the PRC might be difficult or impossible. See "Enforcement of Civil Liabilities" in this offering circular.

Our operations and financial performance could be adversely affected by labor shortage, increase in labor costs, changes to the PRC labor-related laws and regulations.

The PRC Labor Contract Law became effective on January 1, 2008, and it was amended on December 28, 2012. The amendment took effect on July 1, 2013. The current PRC Labor Contract has imposed greater liabilities on employers and significantly affects the cost of an employer's decision to reduce its workforce. Further it requires certain terminations to be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce, the PRC Labor Contract Law could adversely affect our ability to effect such changes in the most cost effective or timely manner to our business, hence may adversely affect our financial condition and results of operations. In addition, the PRC government has continued to introduce various new labor-related regulations after the promulgation of the PRC Labor Contract Law. Among other things, the paid annual provisions require that paid annual leaves ranging from five to fifteen days be available to nearly all employees and further require that employers compensate an employee for any annual leave days the employee is unable to take in the amount of three times of such employee's daily salary, subject to certain exceptions.

On October 28, 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law. According to the PRC Social Insurance Law, employees will participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay for the social insurance premiums for such employees.

As a result of the implementation of these and any future rules and regulations designed to enhance the standard for labor protection, our labor costs may continue to increase. Furthermore, as the interpretation and implementation of these new laws and regulations are still evolving, we cannot assure you that our employment practice will at all times be deemed fully in compliance, which may cause us to face labor disputes or governmental investigation. If we are deemed in violation of such labor laws and regulations, we could be subject to penalties, compensations to the employees and loss of reputation, and as a result our business, financial condition and results of operations could be materially and adversely affected.

The PRC government may pass laws that would have a negative effect on foreign companies or on our business generally.

The PRC and local and regional governments in the PRC have in the past and may continue in the future to pass laws or regulations that may negatively affect our business. For example, in December 2010, the PRC government extended the city development and educational surcharge to include all foreign companies operating in the PRC and that had negatively affected our profits.

Additionally, the Ministry of Commerce issued the Administrative Measures for Single-purpose Commercial Prepaid Cards (for Trial Implementation) (單用途商業預付卡管理辦法(試行)) on September 21, 2012. This regulation became effective on November 1, 2012. According the administrative measures, if a company engaging in the retail, accommodation, catering or resident service industries issues a single-purpose commercial prepaid card, it must file with the relevant commerce department within 30 days thereafter. If it fails to do so, the card issuer may be ordered to correct the non-compliance or be subject to a fine of an amount up to RMB30,000. We have issued cash coupons for use in our stores, and if we do not file the appropriate information with the local commerce authority or fails to comply with the above regulations, we may be subject to a fine up to RMB30,000, which may have a negative impact on our business, financial condition and results of operations.

The PRC national economy and economies in different regions of the PRC may be adversely affected by natural disasters, acts of God, and occurrence of epidemics.

Our business is subject to general economic and social conditions in the PRC, in particular, in regions where our department stores are located. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including certain cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and subsequently, resulting in tremendous loss of lives, injury and destruction of assets in the region. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. In April 2013, there were reports of cases of H7N9 avian flu in southeast China, including deaths in Shanghai and Jiangsu, Zhejiang and Anhui provinces. A recurrence of SARS or an outbreak of any other epidemics in China, such as the H5N1 and H7N9 avian flu or the human swine flu, especially in the cities where we have operations, may result in material disruptions to our store development and our sales, which in turn may adversely affect our business, financial condition and results of operations.

Risks Relating to the Bonds

We are a holding company and payments with respect to the Bonds are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Bonds will not be guaranteed by any of our current or future subsidiaries. In addition, shares of our subsidiaries will not be pledged for the benefit of the holders of the Bonds. Our primary assets are loans to and ownership interests in our subsidiaries. Accordingly, our ability to pay principal and interest on the Bonds will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries. See "—Risks Relating to the PRC—Government control over currency conversion may limit our ability to utilize our cash effectively."

Creditors, including trade creditors of our subsidiaries and any holders of preferred shares in such entities, would have a claim on such subsidiaries, assets that would be prior to the claims of holders of the Bonds. As a result, our payment obligations under the Bonds will be effectively subordinated to all existing and future obligations of our subsidiaries, and all claims of creditors of our subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Bonds. As of December 31, 2016, we had interest-bearing bank loans of approximately RMB1,990.2 million (US$286.6 million) and capital commitments of approximately RMB137.1 million (US$19.7 million). See "Description of Other Material Indebtedness."

The Bonds are unsecured obligations.

As the Bonds are unsecured obligations, their repayment may be compromised if:

- we enter into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under our future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of our indebtedness.

If any of these events occur, our assets may not be sufficient to pay amounts due on the Bonds.

In addition, payments with respect to the Bonds are subordinated to our secured indebtedness, to the extent of the collateral securing such indebtedness.

The Bonds do not contain restrictive operating covenants.

The Trust Deed will contain operating covenants intended to benefit the interests of holders of the Bonds and that limit our ability to, among other things, incur liens, or consolidate or merge with or into, or sell substantially all of our assets to, another person.

The Trust Deed, however, does not contain other restrictive operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us. In addition, the Trust Deed does not contain any other covenants or provisions designed to afford holders of the Bonds protection in the event of a highly leveraged transaction involving us or in the event of a decline in our credit rating or the rating of the Bonds as the result of a takeover, recapitalization, highly leveraged transaction or similar restructuring involving us that could adversely affect such holders. Subject to the terms of our existing corporate debt and other credit facilities, we may incur substantial additional indebtedness in the future.

The Bonds will be structurally subordinated to all of our secured debt and if a default occurs, we may not have sufficient funds to fulfill our obligations under the Bonds.

The Bonds are general senior unsecured obligations that rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness, including our short-term debentures. The Bonds will be structurally subordinated to all our secured indebtedness and other obligations to the extent of the value of the assets securing that indebtedness and other obligations. As of December 31, 2016, we had approximately RMB1,990.2 million (US$286.6 million) of secured interest-bearing bank loans. In addition, the Trust Deed will, subject to some limitations, permit us to incur additional secured indebtedness and your Bonds will be effectively junior to any additional secured indebtedness we may incur.

In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure our secured indebtedness will be available to pay obligations on the Bonds only after all secured indebtedness, together with accrued interest, has been repaid in full from our assets. If we are unable to repay our secured indebtedness, the lenders could foreclose on substantially all of our assets which serve as collateral. In this event, our secured lenders would be entitled to be repaid in full from the proceeds of the liquidation of those assets before those assets would be available for distribution to other creditors, including holders of the Bonds. Holders of the Bonds will participate in the proceeds of the liquidation of our remaining assets ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the Bonds, and potentially with all of our other general creditors. We advise you that there may not be sufficient assets remaining to pay amounts due on any or all the Bonds when outstanding.

The holders of the Bonds have no security interest in the Interest Reserve Account.

The funds in the Interest Reserve Account may only be used in accordance with the terms of the Trust Deed and the Account Bank Agreement (as defined under the Terms and Conditions of the Bonds). On the issue date of the Bonds, we have undertaken to deposit an amount not less than the interest due in respect of the Bonds for two interest periods into the Interest Reserve Account. Upon the occurrence of an event of default under the Bonds, any amount outstanding in the Interest Reserve Account shall be held solely to the order of the Trustee and the Account Bank (as defined under the Terms and Conditions of the Bonds) shall release such funds in the Interest Reserve Account at the direction of the Trustee, which shall apply such funds towards payment of the amounts due under the Bonds and the Trust Deed. See Condition 4(f) (*Interest Reserve*) of the Terms and Conditions of the Bonds. However, such contractual arrangement over the Interest Reserve Account does not constitute a security, pledge, charge, Lien or any other form of encumbrance over the funds in the Interest Reserve Account in favor of the Trustee and the holders of the Bonds. As a result, the holders of the Bonds are unable to enforce, take possession or dispose of any security over the funds in the Interest Reserve Account to satisfy the Issuer's obligations under the Bonds. In addition, in the event of an insolvency of the Issuer, the funds in the Interest Reserve Account may be subject to the insolvency claims of our third-party creditors. The Trustee's claim against the funds in the Interest Reserve Account will be an unsecured claim and may rank lower in priority to any claims by our secured third-party creditors.

We have substantial indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations.

We now have, and will continue to have after the offering of the New Bonds, a substantial amount of indebtedness. As of December 31, 2014, 2015 and 2016, our total interest-bearing bank loans amounted to RMB3,426.0 million, RMB971.5 million and RMB1,990.2 million (US$286.6 million), respectively.

Our substantial indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Bonds and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;

- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

Certain of our other financing arrangements also impose operating and financial restrictions on our business. See "Description of Other Material Indebtedness." Such restrictions in our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Bonds and other debt.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Bonds. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, restrictions contained in the financing facilities entered into by our subsidiaries and applicable laws. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Bonds. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Bonds.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends by the board of directors. In addition, starting from January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies will be subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to a double tax treaty between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5%. However, according to a Circular of the PRC State Administration of Taxation dated October 27, 2009, tax treaty benefits will be denied to "conduit" or shell companies without substantive business activities. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Bonds, and there could be restrictions on payments required to redeem the Bonds at maturity or as required for any early redemption.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders' loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Bonds. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on our behalf on the interest paid under any shareholders' loans. PRC regulations require our non-PRC subsidiaries making shareholder loans in foreign currencies to our PRC subsidiaries to be registered with the SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with the SAFE, as well as any other documents that the relevant bank may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Bonds.

We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar.

The Bonds are denominated in U.S. dollars, while substantially all of our revenue are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. Since August 11, 2015, PBOC requires market makers to quote on a daily basis their central parity rates for Renminbi against the U.S. dollar to the China Foreign Exchange Trade System before the market opens by reference to the closing rate of the PRC inter-bank foreign exchange market on the previous trading day in conjunction with the demand and supply conditions in the foreign exchange markets and exchange rate movements of major currencies. The mid-point price of Renminbi to the U.S. dollar depreciated by approximately 4.71% from August 10, 2015 to August 27, 2015 and continued to depreciate with fluctuations since April 2016. In addition, the PBOC has further authorized the China Foreign Exchange Trade System to announce its central parity rate for Renminbi against the U.S. dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Bonds.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. In addition, following the offering of the Bonds, we may enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar-denominated liabilities under the Bonds. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. The Sole Lead Manager and its affiliates may enter into such hedging agreements permitted under the Trust Deed governing the Bonds, and these agreements may be secured by pledges of our cash and other assets as permitted under the Trust Deed. If we were unable to provide such collateral, it could constitute a default under such agreements.

Any hedging obligation entered into or to be entered into by us or our subsidiaries, may contain terms and conditions that may result in the early termination, in whole or in part, of such hedging obligation upon the occurrence of certain termination or analogous events or conditions (howsoever described), including such events relating to us and/or any of our subsidiaries, and the terms and conditions of such hedging obligation(s) may provide that, in respect of any such early termination, limited or no payments may be due and payable to, or that certain payments may be due and payable by, us and/or any of our subsidiaries (as relevant) in respect of any such early termination. Any such early termination, in whole or in part, of any such hedging obligation(s), and the payment and any other consequences and effects of such early termination(s), may be material to our financial condition and/or any of our subsidiaries and may be material in relation to the performance of our or their respective obligations under or in relation to the Bonds (if applicable), any indebtedness or any other present or future obligations and commitments.

We may not be able to repurchase the Bonds upon a Change of Control Triggering Event.

Upon the occurrence of a Change of Control Triggering Event, the holder of each Note will have the option to require us to redeem all or some of the holder's Bonds at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See "Terms and Conditions of the Bonds."

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any change of control triggering event to make purchases of the outstanding Bonds. Our failure to make the offer to purchase or to purchase the outstanding Bonds would constitute an event of default under the Bonds. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Bonds and repay the debt.

In addition, the definition of Change of Control Triggering Event for purposes of the Trust Deed governing the Bonds does not necessarily afford protection for the holders of the Bonds in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of change of control triggering event for purposes of the Trust Deed governing the Bonds also includes a phrase relating to the sale of "all or substantially all" of our assets. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Bonds, and the ability of a holder of the Bonds to require us to purchase its Bonds pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

We may be able to redeem the Bonds in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event we are required to pay additional amounts because we are treated as a PRC "resident enterprise."

As described under "Terms and Conditions of the Bonds – Redemption – Optional Tax Redemption," in the event we are required to pay additional amounts as a result of future changes in existing tax law, or changes to existing official interpretations thereof, and such change results in our being required to withhold tax on interest payments as a result of our being treated as a PRC "resident enterprise," we may redeem the Bonds in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Bonds depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay shareholder loans. Our PRC subsidiaries must present certain documents to the SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with the SAFE). Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on our existing shareholder loans, which may affect our ability to satisfy our obligations under the Bonds.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Trust Deed, there could be a default under the terms of these agreements or the Trust Deed, which could cause repayment of our debt to be accelerated.

If we are unable to comply with the restrictions and covenants in the Trust Deed governing the Bonds, or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Trust Deed, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt, including the Bonds, or result in a default under our other debt agreements, including the Trust Deed. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Bonds and other debt agreements, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk.

The Trust Deed and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability to:

- create liens;
- effect a consolidation or merger; and
- ensure that the ratio of consolidated net borrowings to consolidated net assets shall not, for any relevant period, exceed 0.5 to 1.0.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

A trading market for the New Bonds may not develop, and there are restrictions on resale of the Bonds.

The New Bonds are a new issue of securities for which there is currently no trading market. The Original Bonds are currently listed on the SGX-ST. Although approval in-principle has been received from the SGX-ST for the listing and quotation of the New Bonds on the SGX-ST we cannot assure you that we will obtain or be able to maintain a listing of the Bonds on the SGX-ST, or that if listed, a liquid trading market will develop. We have been advised that the Sole Lead Manager intends to make a market in the Bonds, but the Sole Lead Manager is not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the New Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your New Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See "Transfer Restrictions." We cannot predict whether an active trading market for the Bonds will develop or be sustained.

The Trustee may request holders of the Bonds to provide an indemnity and/or security and/or pre-funding to its satisfaction.

Where the Trustee is under the provisions of the Trust Deed and the Account Bank Agreement bound to act at the request or direction of the Bondholders, the Trustee shall nevertheless not be so bound unless first indemnified and/or provided with security and/or pre-funded to its satisfaction against all actions, proceedings, claims and demands to which it may render itself liable and all costs, charges, damages, expenses and liabilities which it may incur by so doing. Negotiating and agreeing to an indemnity and/or security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or pre-funding, in breach of the terms of the Trust Deed or the Terms and Conditions and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the holders of the Bonds to take such actions directly.

The ratings assigned to the Bonds may be lowered or withdrawn in the future.

The Bonds have been rated "BB-" by S&P. The rating address our ability to perform our obligations under the terms of the Bonds and credit risks in determining the likelihood that payments will be made when due under the Bonds. In addition, we have been rated "BB" with a stable outlook by S&P. The rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that the rating will be confirmed or it will remain for any given period of time or that the rating will not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Bonds of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Bonds may adversely affect the market price of the Bonds.

The liquidity and price of the Bonds following the offering may be volatile.

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in our revenue, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates, fluctuations in price for comparable companies and government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the trading volume and price of the Bonds. We cannot assure you that these developments will not occur in the future.

There may be less publicly available information about us than is available in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, the financial information in this offering memorandum has been prepared in accordance with IFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions, or other GAAPs, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between IFRS and other GAAPs. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisors for an understanding of the differences between IFRS and other GAAPs and how those differences might affect the financial information contained in this offering memorandum.

We will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, which standards may be different from those applicable to debt securities listed in certain other countries.

We will be subject to continuing listing obligations in respect of the Bonds to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different than those imposed by securities exchanges in other countries or regions such as the United States or Hong Kong. As a result, the level of information that is available may not correspond to what investors in the Bonds are accustomed to.

The Bonds will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Bonds will initially only be issued in global certificated form and held through Euroclear, Clearstream. Interests in the global bonds representing the Bonds will trade in book-entry form only, and bonds in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Bonds. The nominee of the common depositary for Euroclear and Clearstream will be the sole registered holder of the global certificate representing the Bonds. Payments of principal, interest and other amounts owing on or in respect of the global certificate representing the Bonds will be made to the paying agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the global certificate representing the Bonds and credited by such participants to indirect participants. After payment to the nominee of the common depositary for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and Clearstream or, if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of Bondholder under the Trust Deed.

Unlike the holders of the Bonds themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from Bondholders. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Trust Deed, unless and until definitive registered bonds are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Bonds.

Certain facts and statistics in this offering memorandum are derived from publications not independently verified by us, the Sole Lead Manager or our or its respective advisors.

Facts and statistics in this offering memorandum relating to China's economy and the retail industry are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Sole Lead Manager or our or its advisor, and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately US$99.5 million, which we plan to use for our business operations overseas and other general corporate purposes overseas.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds.

EXCHANGE RATE INFORMATION

CHINA

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system.

On May 18, 2007, PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. Effective since August 11, 2015, market makers are required to quote their central parity rates for Renminbi against U.S. dollar to the China Foreign Exchange Trade System daily before the market opens by reference to the closing rate of the PRC inter-bank foreign exchange market on the previous trading day in conjunction with the demand and supply conditions in the foreign exchange markets and exchange rate movements of major currencies. PBOC has further authorized the China Foreign Exchange Trade System to announce its central parity rate for Renminbi against the U.S. dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. The International Monetary Fund announced on September 30, 2016 that the Renminbi joined its Special Drawing Rights currency basket. Since October 2016, the RMB against the U.S. dollar continued to depreciate at an increasing rate. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon buying rate			
Period	**Period end**	**Average[(1)]**	**High**	**Low**
	(RMB per US$1.00)			
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
December	6.9430	6.9198	6.9580	6.8771
2017				
January	6.8768	6.8907	6.9575	6.8360
February	6.8665	6.8694	6.8821	6.8517
March	6.8832	6.8440	6.9132	6.8687
April	6.8900	6.8876	6.8988	6.8778
May	6.8098	6.8843	6.9060	6.8098
June (through June 9)	6.7970	6.7998	6.8085	6.7935

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

HONG KONG

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The Basic Law of Hong Kong (the "Basic Law"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong government will maintain the link within the current rate range or at all.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon buying rate			
Period	**Period end**	**Average**[1]	**High**	**Low**
	(HKD per US$1.00)			
2011	7.7663	7.7793	7.8087	7.7634
2012	7.7507	7.7556	7.7699	7.7493
2013	7.7539	7.7565	7.7654	7.7503
2014	7.7531	7.7554	7.7669	7.7495
2015	7.7507	7.7519	7.7686	7.7495
2016	7.7534	7.7618	7.8270	7.7505
December	7.7534	7.7586	7.7674	7.7534
2017				
January	7.7579	7.7560	7.7580	7.7540
February	7.7627	7.7596	7.7627	7.7575
March	7.7714	7.7658	7.7714	7.7611
April	7.7779	7.7737	7.7806	7.7687
May	7.7929	7.7864	7.7933	7.7775
June (through June 9)	7.7972	7.7936	7.7972	7.7908

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated cash and cash equivalents, short-term debt and capitalization as of December 31, 2016 on an actual basis and on an adjusted basis after giving effect to the issuance of the Original Bonds and the issuance of the New Bonds after deducting underwriting discounts and commissions and other estimated expenses in this offering after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering. The following table should be read in conjunction with our consolidated financial information and related notes included elsewhere in this offering memorandum.

	As of December 31, 2016			
	Actual		As adjusted	
	RMB	US$	RMB	US$
		(unaudited)	(unaudited)	(unaudited)
	(in thousands)			
Cash and cash equivalents(1)	13,236,752	1,906,489	16,656,180	2,398,989
Short-term borrowings				
Borrowings – due within one year	520,164	74,919	520,164	74,919
Amounts due to related companies	661,427	95,265	661,427	95,265
Total short-term borrowings	1,181,591	170,184	1,181,591	170,184
Long-term borrowings(2)				
Borrowings – due after one year	1,470,050	211,731	1,470,050	211,731
Senior bonds(3)	8,849,485	1,274,591	8,849,485	1,274,591
Original Bonds(4)	–	–	2,728,599	393,000
New Bonds to be issued	–	–	690,829	99,500
Total long-term borrowings	10,319,535	1,486,322	13,738,963	1,978,822
Total equity	20,975,227	3,021,061	20,975,227	3,021,061
Total capitalization(5)	31,294,762	4,507,383	34,714,190	4,999,883

Notes:

(1) Cash and cash equivalents exclude pledged deposits of RMB5,382.8 million (US$775.3 million).

(2) Subsequent to December 31, 2016, we have, in the ordinary course of business, entered into additional financing arrangements for general corporate purposes. See "Description of Material Indebtedness and Other Obligations." These additional borrowings are not reflected in the table above. As of May 31, 2017, we had interest-bearing bank loans of approximately RMB3,772 million (US$543.3 million).

(3) Senior bonds refer to the Corporate Bonds. As of the date of this offering memorandum, an aggregate principal amount of RMB5.0 billion (US$720.1 million) and RMB4.0 billion (US$576.1 million) of the Public Corporate Bonds and the Non-Public Corporate Bonds was outstanding, respectively.

(4) We issued the Original Bonds in the aggregate principal amount of US$400,000,000 on March 10, 2017, at an issue price of 100%.

(5) Total capitalization includes total long-term borrowings plus total equity.

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our indebtedness or capitalization since December 31, 2016.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table presents our selected financial and other data. The selected consolidated statement of profit or loss data for 2014, 2015 and 2016 and the selected consolidated statement of financial position data as of December 31, 2014, 2015 and 2016 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by Ernst & Young, the independent certified public accountants, and included elsewhere in this offering memorandum. Our financial statements have been prepared and presented in accordance with IFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary financial data below should be read in conjunction with our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

SELECTED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	For the year ended December 31,			
	2014	2015	2016	
	RMB	RMB	RMB	US$
				(unaudited)
	(in thousands, except for percentages)			
Revenue	60,359,843	64,595,127	76,695,025	11,046,381
Cost of sales	(51,365,601)	(55,082,038)	(66,318,216)	(9,551,810)
Gross profit	8,994,242	9,513,089	10,376,809	1,494,571
Other income and gains	2,162,584	1,994,026	1,964,324	282,922
Selling and distribution expenses	(7,526,591)	(7,791,964)	(9,448,122)	(1,360,813)
Administrative expenses	(1,701,039)	(1,580,572)	(1,979,752)	(285,144)
Other expenses	(604,967)	(768,601)	(751,945)	(108,302)
Profit before finance (cost)/income	1,324,229	1,365,978	161,314	23,234
Finance costs	(46,111)	(43,226)	(234,615)	(33,791)
Finance income	302,026	253,999	231,794	33,385
Profit before tax	1,580,144	1,576,751	158,493	22,828
Income tax expense	(561,976)	(640,257)	(212,688)	(30,634)
Profit/(loss) for the year/period	1,018,168	936,494	(54,195)	(7,806)
Profit/(loss) for the year/period attributable to:				
Owners of the parent	1,279,770	1,207,963	325,139	46,830
Other non-controlling interests	(261,602)	(271,469)	(379,334)	(54,636)
	1,018,168	936,494	(54,195)	(7,806)
Other Financial Data (unaudited):				
EBITDA(1)	1,904,712	2,099,131	838,960	120,835
EBITDA margin(2)	3.2%	3.2%	1.1%	1.1%

Notes:

(1) We calculate EBITDA by adding depreciation and amortization expenses, loss on equity investments at fair value through profit or loss, and fair value gain on derivative financial instruments to profit from operations. EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to shareholders or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, net finance costs and depreciation and amortization. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition.

(2) EBITDA margin is calculated by dividing EBITDA by revenue.

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,			
	2014	2015	2016	
	RMB	RMB	RMB	US$
				(unaudited)
	(in thousands)			
Non-current Assets				
Property and equipment	4,417,234	4,393,245	6,644,941	957,071
Investment properties	601,224	599,832	605,030	87,142
Goodwill	7,145,117	7,145,117	14,324,966	2,063,224
Other intangible assets	265,801	242,363	432,403	62,279
Investments in associates	–	–	17,000	2,449
Entrusted loans	–	–	500,000	72,015
Other investments	217,350	595,013	1,007,046	145,045
Lease prepayments and deposits	311,128	1,423,833	1,521,948	219,206
Deferred tax assets	31,795	40,140	56,251	8,102
Total non-current assets	12,989,649	14,439,543	25,109,585	3,616,533
Current Assets				
Inventories	10,926,399	10,176,004	11,605,958	1,671,604
Trade and bills receivables	267,694	189,439	162,908	23,464
Prepayments, deposits and other receivables	4,797,960	4,245,343	4,731,201	681,435
Due from related companies	227,964	189,694	239,392	34,480
Equity investments at fair value through profit or loss	–	1,029,142	1,333,529	192,068
Pledged deposits	6,072,895	3,880,903	5,382,804	775,285
Cash and cash equivalents	8,794,112	7,437,717	13,236,752	1,906,489
Total current assets	31,087,024	27,148,242	36,692,544	5,284,825
Current Liabilities				
Trade and bills payables	20,880,430	19,290,931	23,898,406	3,442,086
Customer's deposits, other payables and accruals	2,425,413	2,591,986	3,932,511	566,399
Interest-bearing bank loans	3,425,950	971,512	520,164	74,919
Due to related companies	521,213	1,028,149	661,427	95,265
Tax payable	626,151	857,222	1,051,761	151,486
Total current liabilities	27,879,157	24,739,800	30,064,269	4,330,155
Net Current Assets	3,207,867	2,408,442	6,628,275	954,670
Total Assets less Current Liabilities	16,197,516	16,847,985	31,737,860	4,571,203

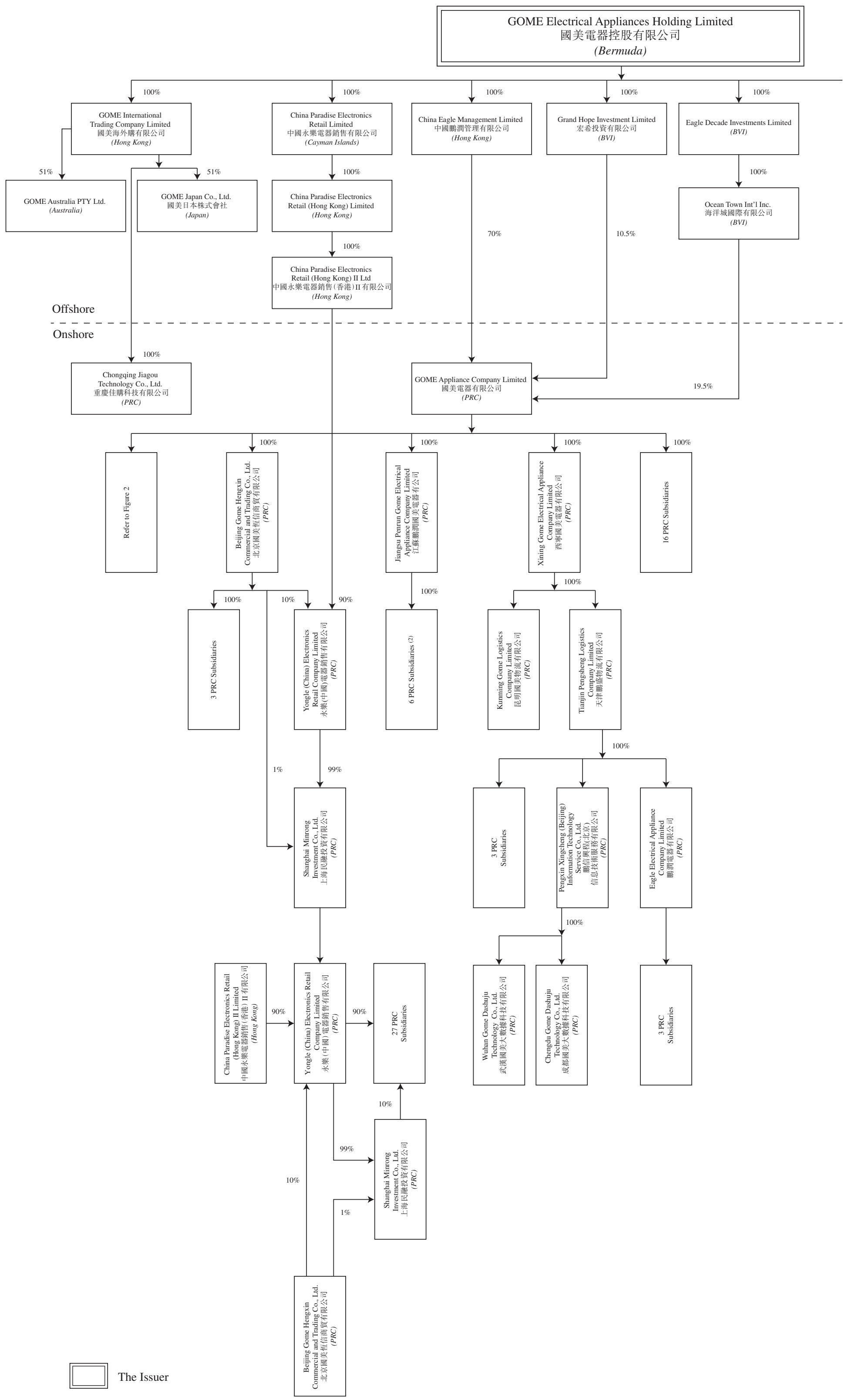
	As of December 31,			
	2014	2015	2016	
	RMB	RMB	RMB	US$
				(unaudited)
	(in thousands)			
Non-Current Liabilities				
Bonds payable	–	–	8,849,485	1,274,591
Interest-bearing bank loans	–	–	1,470,050	211,731
Deferred tax liabilities	162,998	159,623	443,098	63,820
Total Non-Current Liabilities	162,998	159,623	10,762,633	1,550,142
Net Assets	16,034,518	16,688,362	20,975,227	3,021,061
Equity				
Equity attributable to owners of the parent:				
Issued capital	423,221	423,268	527,309	75,948
Reserves	16,247,831	17,402,681	21,958,850	3,162,733
Proposed dividends[1]	234,864	–	–	–
	16,905,916	17,825,949	22,486,159	3,238,681
Non-controlling interests	(871,398)	(1,137,587)	(1,510,932)	(217,620)
Total Equity	16,034,518	16,688,362	20,975,227	3,021,061

Note:

(1) "Proposed dividend" is no longer listed as an individual line item and has been consolidated into the line item of "reserve" in our financial statements since 2015.

CORPORATE STRUCTURE

The following chart sets forth our simplified corporate structure as of the date of this offering memorandum:



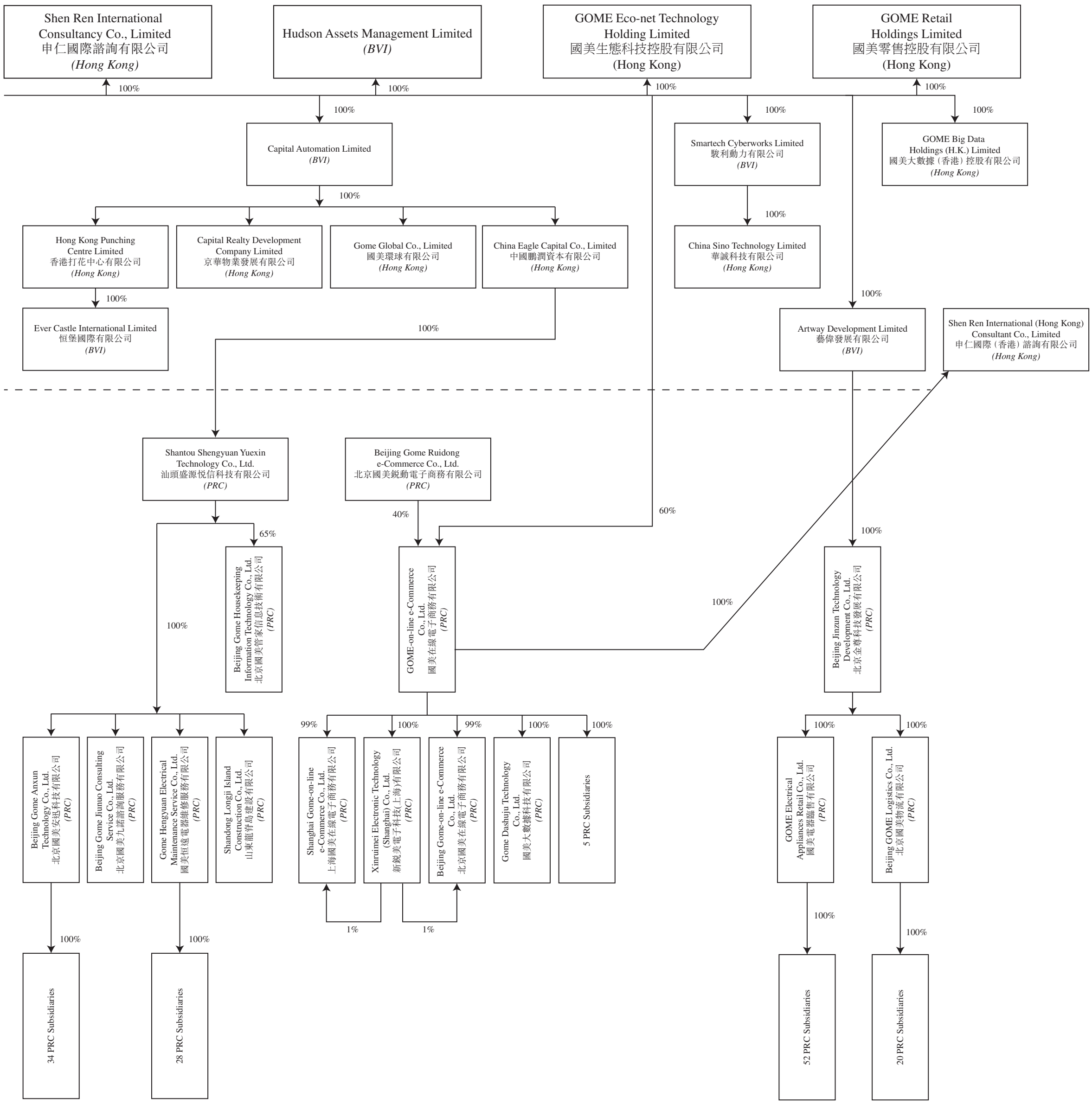
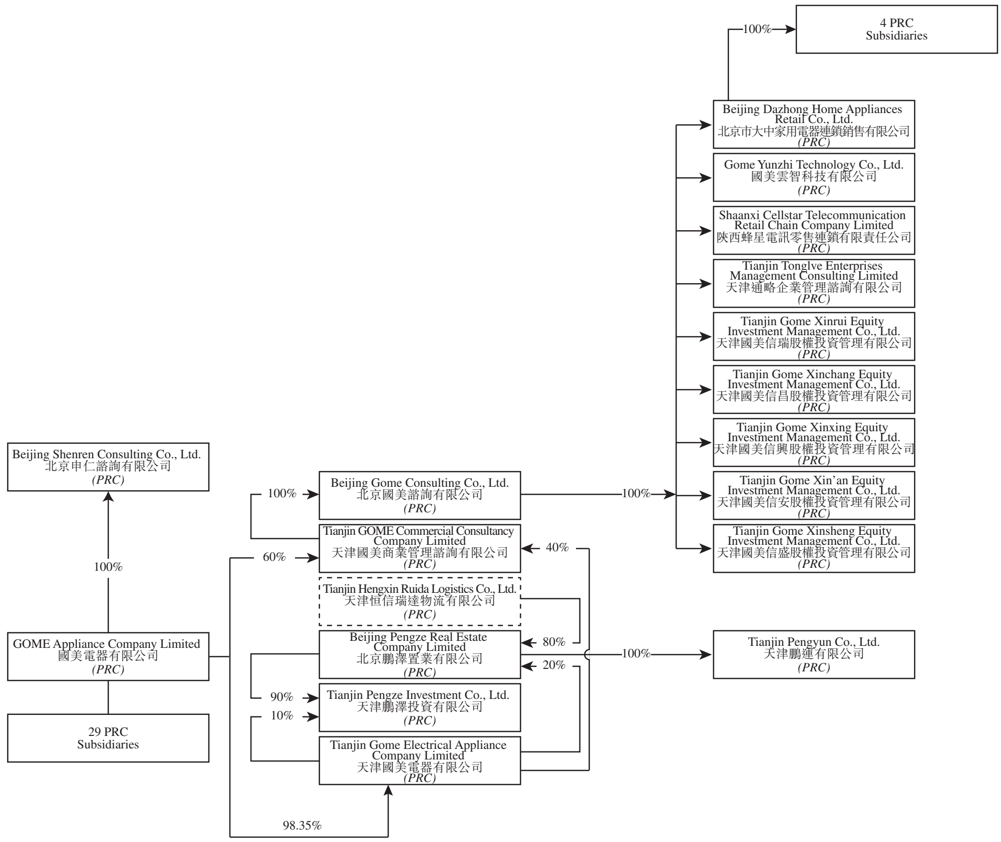

Shen Ren International Consultancy Co., Limited
申仁國際諮詢有限公司
(Hong Kong)
Hudson Assets Management Limited
(BVI)
GOME Eco-net Technology Holding Limited
國美生態科技控股有限公司
(Hong Kong)
GOME Retail Holdings Limited
國美零售控股有限公司
(Hong Kong)
100%
100%
100%
100%
100%
100%
100%
Capital Automation Limited
(BVI)
Smartech Cyberworks Limited
駿利動力有限公司
(BVI)
GOME Big Data Holdings (H.K.) Limited
國美大數據（香港）控股有限公司
(Hong Kong)
100%
100%
Hong Kong Punching Centre Limited
香港打花中心有限公司
(Hong Kong)
Capital Realty Development Company Limited
京華物業發展有限公司
(Hong Kong)
Gome Global Co., Limited
國美環球有限公司
(Hong Kong)
China Eagle Capital Co., Limited
中國鵬潤資本有限公司
(Hong Kong)
China Sino Technology Limited
華誠科技有限公司
(Hong Kong)
100%
Ever Castle International Limited
恒堡國際有限公司
(BVI)
100%
100%
Artway Development Limited
藝偉發展有限公司
(BVI)
Shen Ren International (Hong Kong) Consultant Co., Limited
申仁國際（香港）諮詢有限公司
(Hong Kong)
Shantou Shengyuan Yuexin Technology Co., Ltd.
汕頭盛源悅信科技有限公司
(PRC)
Beijing Gome Ruidong e-Commerce Co., Ltd.
北京國美銳動電子商務有限公司
(PRC)
40%
60%
65%
100%
Beijing Gome Housekeeping Information Technology Co., Ltd.
北京國美管家信息技術有限公司
(PRC)
GOME-on-line e-Commerce Co., Ltd.
國美在線電子商務有限公司
(PRC)
100%
100%
Beijing Jinzun Technology Development Co., Ltd.
北京金尊科技發展有限公司
(PRC)
99%
100%
99%
100%
100%
100%
100%
Beijing Gome Anxun Technology Co., Ltd.
北京國美安迅科技有限公司
(PRC)
Beijing Gome Jiunuo Consulting Service Co., Ltd.
北京國美九諾諮詢服務有限公司
(PRC)
Gome Hengyuan Electrical Maintenance Service Co., Ltd.
國美恒遠電器維修服務有限公司
(PRC)
Shandong Longji Island Construction Co., Ltd.
山東龍脊島建設有限公司
(PRC)
Shanghai Gome-on-line e-Commerce Co., Ltd.
上海國美在線電子商務有限公司
(PRC)
Xinruimei Electronic Technology (Shanghai) Co., Ltd.
新銳美電子科技(上海)有限公司
(PRC)
Beijing Gome-on-line e-Commerce Co., Ltd.
北京國美在線電子商務有限公司
(PRC)
Gome Dashuju Technology Co., Ltd.
國美大數據科技有限公司
(PRC)
5 PRC Subsidiaries
GOME Electrical Appliances Retail Co., Ltd.
國美電器零售有限公司
(PRC)
Beijing GOME Logistics Co., Ltd.
北京國美物流有限公司
(PRC)
1%
1%
100%
100%
100%
100%
34 PRC Subsidiaries
28 PRC Subsidiaries
52 PRC Subsidiaries
20 PRC Subsidiaries

Figure 2


4 PRC Subsidiaries
100%
Beijing Dazhong Home Appliances Retail Co., Ltd.
北京市大中家用電器連鎖銷售有限公司
(PRC)
Gome Yunzhi Technology Co., Ltd.
國美雲智科技有限公司
(PRC)
Shaanxi Cellstar Telecommunication Retail Chain Company Limited
陝西蜂星電訊零售連鎖有限責任公司
(PRC)
Tianjin Tonglve Enterprises Management Consulting Limited
天津通略企業管理諮詢有限公司
(PRC)
Tianjin Gome Xinrui Equity Investment Management Co., Ltd.
天津國美信瑞股權投資管理有限公司
(PRC)
Tianjin Gome Xinchang Equity Investment Management Co., Ltd.
天津國美信昌股權投資管理有限公司
(PRC)
Tianjin Gome Xinxing Equity Investment Management Co., Ltd.
天津國美信興股權投資管理有限公司
(PRC)
Tianjin Gome Xin'an Equity Investment Management Co., Ltd.
天津國美信安股權投資管理有限公司
(PRC)
Tianjin Gome Xinsheng Equity Investment Management Co., Ltd.
天津國美信盛股權投資管理有限公司
(PRC)
Beijing Shenren Consulting Co., Ltd.
北京申仁諮詢有限公司
(PRC)
100%
GOME Appliance Company Limited
國美電器有限公司
(PRC)
29 PRC Subsidiaries
100%
Beijing Gome Consulting Co., Ltd.
北京國美諮詢有限公司
(PRC)
100%
60%
Tianjin GOME Commercial Consultancy Company Limited
天津國美商業管理諮詢有限公司
(PRC)
40%
Tianjin Hengxin Ruida Logistics Co., Ltd.
天津恒信瑞達物流有限公司
(PRC)
80%
Beijing Pengze Real Estate Company Limited
北京鵬澤置業有限公司
(PRC)
20%
100%
Tianjin Pengyun Co., Ltd.
天津鵬運有限公司
(PRC)
90%
10%
Tianjin Pengze Investment Co., Ltd.
天津鵬澤投資有限公司
(PRC)
Tianjin Gome Electrical Appliance Company Limited
天津國美電器有限公司
(PRC)
98.35%

OVERVIEW

We are one of China's largest electrical appliance and consumer electronics retailers in terms of total retail sales in 2015. Our principal business is the sale of electrical appliances and consumer electronic products through a network of retail stores and e-commerce platforms. We are a one-stop solution provider to customers in electrical appliance and consumer electronics industry in China. We offer a diversified range of products to all of our target customer groups. Our scale, leadership positions, breadth of businesses and diversified distribution channels have allowed us to develop strong, long-standing relationships with our suppliers and enjoy economies of scale. Leveraging our 30 years of retailing experience, we have also successfully developed an efficient supply chain management system that fully integrates our nationwide logistics, warehousing and after-sales functions. In line with our "Total Retail Strategy" launched in 2014 and through providing a seamless shopping experience regardless of the channel customers choose, we target to become a leading omni-channel retailer in China.

We were the largest player in the store-based electronics and appliance specialty retail industry in China with a 10.2% market share in 2015, the largest player in the store-based non-grocery specialty retail industry in China with a 1.6% market share in 2015, and the third largest store-based retailer in China with a 0.8% market share in 2015, according to Euromonitor and in terms of total retail sales. We are one of the leading B2C e-commerce retailers in China in terms of total retail sales in 2015, according to iResearch. We have also been a top two retail chain operator in China, having been ranked first in 2014 and second in both 2013 and 2015 in terms of total retail sales, according to China Chain Store & Franchise Association and the list of "The Top 100 Retail Chain Operators in China" published annually. Founded 30 years ago, we have built "GOME" into a brand name that we believe is among the best-known and trustworthy in the industry in China today. Our strong brand recognition is evidenced by our numerous industry accolades, including "Top Ten Chinese Commercial Brands 2016" at the 11th China Retailers Convention, "Top 500 Chinese Enterprises in 2016" by China Enterprise Confederation for 13 consecutive years (2004-2016), "2016 Top 500 Asian Brands" at the 11th Asian Brand Ceremony, "China's Top 100 Most Valuable Brand" by R&F Global Ranking Information Group Limited for ten consecutive years (2007-2016) with an estimated brand value of approximately RMB76.9 billion in 2016, "Top 10 Asian Most Trustworthy Brand" by Asia Brand Association in 2013, "The Most Popular Retail Brand of The Year" and "Most Popular Consumer Electronic Store of The Year" by China Electronic Commerce Association and China Online Retail Top 100 Review Committee in 2012 and 2011, and "50 Best Chinese Brands in 2010" by Forbes and Interbrand.

We offer a wide range of electrical appliance and consumer electronic products that can be broadly categorized into audio visual products, air conditioners, refrigerators and washing machines, telecommunication products, small electrical appliances, computers and digital and information technology products. We source our merchandise from well-known, high quality suppliers both in the PRC and internationally, including, among others, Haier, Gree, Apple, Samsung, Midea, TCL, Hisense, Skyworth, HUAWEI, Sony and OPPO. Leveraging our scale and long-term cooperative relationships with such suppliers, we are able to achieve economies of scale and obtain what we believe to be favorable terms, which allow us to control our procurement costs and manage our working capital.

We conduct our sales through a comprehensive omni-channel retail sales platform consisting of an extensive nationwide network of retail stores, e-commerce shopping website, mobile applications and micro shop networks. As of December 31, 2016, we operated a network of 1,628 stores, of which 362 were flagship stores, 501 were standard stores and 765 specialized stores, spanning 30 provinces and autonomous regions and 428 cities across China, covering first and second tier cities as well as other lower tier cities across all provinces and autonomous regions in China, other than Tibet. In addition to the offline network of stores, we also rely on various online platforms to conduct sales, comprising primarily GOME-on-line, a comprehensive B2C shopping website, and "GOME TOGO" mobile micros shops, through which our sales staff advertise and promote merchandise sold by GOME on social network to extend customer reach and further increase their interaction with customers.

We have established an efficient supply chain management system that primarily encompasses procurement, logistics, warehousing and after-sales services. Not only is the supply chain core to the day-to-day operations, we have continued to generate revenue and profitability from our existing supply chain infrastructure, including from warehousing and after-sales services. As of December 31, 2016, our logistics network covered approximately 95.5% of China's total prefecture level cities, approximately 91.0% of China's total county level cities and approximately 71.0% of China's total towns nationwide and we have built warehouses in Xi'an, Ningbo, Shenyang, Chengdu, Shanghai and Guangzhou during the year of 2016. We have also established a nationwide after-sales network which comprised, as of December 31, 2016, 199 local after-sales branches and over 2,000 third-party service providers, 24 hour hotline services, and "GOME House Manager," an O2O service platform launched in April 2016.

Historically, we have entered into strategic partnerships with leading suppliers, e-commerce operators and overseas retailers to further increase customer traffic, retail sales and differentiated product offering. We completed the acquisition of Artway in March 2016. The acquisition has successfully transformed us from a regional player to one of the leading national players in retail, logistics, warehousing and after-sales. The acquisition has effectively expanded our market share, and is expected to continue to bring benefits to us, including, among other things, (i) providing further growth opportunities in the Second-tier Markets; (ii) achieving cost savings and increasing operating efficiency through the integration of our retail, logistics, warehousing, information technology and human resources platforms; and (iii) enhancing our corporate governance as a result of reduced connected party transactions, a more simplified corporate structure and reorganization of the nomination committee by increasing representatives from independent Board of Directors.

In 2014, 2015 and 2016, our revenue was RMB60,359.8 million, RMB64,595.1 million and RMB76,695.0 million (US$11,046.4 million), respectively; and our profit attributable to owners of the parent for the same periods amounted to RMB1,279.8 million, RMB1,208.0 million and RMB325.1 million (US$46.8 million), respectively.

COMPETITIVE STRENGTHS

Leading market position supported by strong brand recognition, customer loyalty and diversified product offering

We were the largest player in the store-based electronics and appliance specialty retail industry in China with a 10.2% market share in 2015, the largest player in the store-based non-grocery specialty retail industry in China with a 1.6% market share in 2015, and the third largest store-based retailer in China with a 0.8% market share in 2015, according to Euromonitor and in terms of total retail sales. We are one of the leading B2C e-commerce retailers in China in terms of total retail sales in 2015, according to iResearch. We were also ranked first in 2014 and second in 2013 and 2015 in China's chain market in terms of total retail sales, according to China Chain Store & Franchise Association. We have been able to maintain our leadership position and gain market share in the store-based electronics and appliance specialty retail industry in China, according to Euromonitor. Our market share in the space had grown from 9.3% in 2013 to 10.2% in 2015, in terms of total retail sales. Our ranking and market share in China according to Euromonitor are set forth below:

Ranking (Market share in terms of total retail sales)	2013	2014	2015
Store-based Electronics and Appliance Specialist Retailers	No. 1 (9.3%)	No. 1 (9.8%)	No. 1 (10.2%)
Store-based Non-Grocery Specialist Retailers.	No. 1 (1.6%)	No. 1 (1.6%)	No. 1 (1.6%)
Store-based Retailing	No. 3 (0.8%)	No. 3 (0.8%)	No. 3 (0.8%)

As of December 31, 2016, we operated a total of 1,628 stores, spanning 30 provinces and autonomous regions and 428 cities across China. We believe we are the leading electrical appliance and consumer electronics retailer in China that operates multi-brand businesses, multi-channels in offline and online, and an integrated supply chain network nationwide encompassing procurement, logistics, warehousing and comprehensive after-sales services.

Since our inception in 1987, we have built "GOME" into a brand name that we believe is among the most well-known and trustworthy in the industry in China today. We believe that our diverse product offering, our initiatives to create and increase touch points with customers and improve services to provide a seamless shopping experience across all channels, competitive pricing supported by our economies of scale and streamlined supply chain management enable us to become a trusted destination for high-quality electrical appliance and consumer electronic products. As of December 31, 2016, customers in over 400 cities across China were able to enjoy our "three deliveries/day ("一日三達"), precise delivery ("精準配送") and installation with delivery ("送裝同步")" customer services which, we believe, has become an industry benchmark. We offer services such as online shopping with 7×24 hour delivery on demand, and we improve online shoppers' overall shopping experience by providing personalized services and effective customer interaction, such as "GOME TOGO" mobile micro shops that we commenced in December 2015. We also successfully launched major sales campaigns, such as "March 11 Black Friday," "April 15," "June 17," "September 17" and "December 18" sale carnivals to further enhance customer loyalty. As a testament to our brand recognition and customer loyalty, the number of our active members, being consumers who have at least one recurring purchase in a year, increased from approximately 51 million as of December 31, 2014 to over 86 million as of December 31, 2016.

We offer a wide range of electrical appliance and consumer electronic products in China and have been continuously expanding our product offering to cater to evolving customer needs and preferences. We have also been making continuous efforts to increase sales and profitability through diversifying and differentiating our product offering. Leveraging long-term relationships with our key suppliers, not only are we able to procure product at low prices, we also take initiatives to obtain the exclusive retail right for some products from the suppliers, such as a majority of types of products of Sanyo TVs, some models of DIQUA washing machines and Electrolux air conditioners. The percentages that the differentiated products contributed to our total revenue increased from approximately 30% in 2013 to approximately 40% in 2016. The average gross profit margin of the differentiated products was approximately 20% in 2016, which is relatively higher than that of the products (including differentiated and standard products) of 16.1% in 2016.

Our strong brand recognition is also evidenced by our numerous industry accolades, including "Top Ten Chinese Commercial Brands 2016" at the 11th China Retailers Convention, "Top 500 Chinese Enterprises in 2016" by China Enterprise Confederation for 13 consecutive years (2004-2016), "2016 Top 500 Asian Brands" at the 11th Asian Brand Ceremony, "China's Top 100 Most Valuable Brand" by R&F Global Ranking Information Group Limited for ten consecutive years (2007-2016) with an estimated brand value of approximately RMB76.9 billion in 2016, "Top 10 Asian Most Trustworthy Brand" by Asia Brand Association in 2013, "The Most Popular Retail Brand of The Year" and "Most Popular Consumer Electronic Store of The Year" by China Electronic Commerce Association, "China's Top 100 Retailers" by China General Chamber of Commerce in June 2013 and China Online Retail Top 100 Review Committee in 2012 and 2011, and "50 Best Chinese Brands in 2010" by Forbes and Interbrand.

Extensive nationwide omni-channel sales platform

Leveraging our highly integrated supply chain and efficient information technology infrastructure, we have successfully developed one of the largest, nationwide omni-channel retail footprint with an ample choice of electrical appliance and consumer electronic products that meets customers' demand and enables customers to make purchases anytime, anywhere. Our retail platform is built around three pillars, namely, our national offline retail store network, our fast-growing online platforms and our mobile application as well as mobile micro shop:

- *Retail stores*: we have established an extensive nationwide offline retail network which comprised 1,628 stores as of December 31, 2016, covering all first tier and substantially all of the second tier cities as well as other lower tier cities in China. We adopt a multi-brand strategy to target different segments of consumers and increase market share. "GOME," our flagship brand, targets nationwide mass market and comprised 1,400 stores as of December 31, 2016; "Dazhong," the brand we have been managing and operating since 2007 and completed its acquisition in March 2016, has a leading market position in Beijing; "Cellstar," the brand we acquired in 2007, specializes in communication products retail in Shaanxi; and "China Paradise," a leading consumer electronic products brand we acquired in 2006, mainly targets middle-and upper-income customers in Shanghai.

- *Online platform accessible through e-commerce shopping website and mobile application*: to capitalize on the growing prevalence of e-commerce in recent years, we also sell our products online through a variety of formats, comprising primarily GOME-on-line, a comprehensive B2C shopping website, which is also accessible through mobile application. We launched GOME-on-line in 2011, aiming to extend customer reach and further enhance customer shopping experience. Currently, GOME-on-line comprises B2C business, where we can directly sell our products, GOME-on-line market place, where we operate as a sales platform for a wide range of merchandise through third-party shops, and cross-border e-commerce with shopping channels for products from Japan, Korea and Australia, among others.

- *Mobile micro shop*: in addition to providing our customers access to products we offer, we also seek to enhance interaction and establish strong linkage with our customers. In December 2015, we launched "GOME TOGO" mobile micro shop, a key element of our O2O initiative, which encourages our sales personnel to promote our products on social network to attract customers to their mobile micro shops to make purchases. We believe the enhanced customer interaction, superior shopping experience and personalized customer services beyond the "eight working hours" through such social network platform could help attract more customers and enhance customer loyalty.

Leveraging our extensive nationwide omni-channel retail sales platform, we have achieved growth in our sales. Our revenue increased from RMB60,359.8 million in 2014 to RMB76,695.0 million (US$11,046.4 million) in 2016, representing a CAGR of 12.7%. Our offline-online total GMV increased by 110.1% in 2016 as compared to in 2015. We believe that our omni-channel sales platform will support us in further strengthening our business development and consolidating our industry-leading position.

Efficient supply chain management system

Our efficient supply chain management system is essential to support our omni-channel retail sales platform and meet the requirements of end-customers of varied demographics. Our supply chain management system provides our management with high visibility and control over critical aspects of supply chain, including procurement and management of strategic relationship with leading suppliers, cooperation with third-party logistics service providers, warehousing and after-sale services. As a result, we can effectively address our customers' evolving needs, grow with enhanced operating efficiency and maintain competitive operating costs. More noticeably, we have continued to generate revenue and profitability from our existing supply chain infrastructure, including from after-sales services, that increase shoppers' purchase frequency.

- *Strategic and stable cooperative relationships with domestic and international leading suppliers*. Leveraging our extensive nationwide sales network and highly scalable business model, we have attracted a broad portfolio of leading domestic and international brands and established long-term strategic cooperative alliance with these suppliers, including Haier, Gree, Apple, Samsung, Midea, TCL, Hisense, Skyworth, HUAWEI, Sony and OPPO. We believe China will continue to see rapid growth in Internet TV and purchase of foreign branded products. In September 2015, we cooperated with MTC, Oriental Pearl, SMG, Wenguang Group and Haier on the development of Internet TV. Since our launch of cross-border e-commerce in December 2015, we have established strategic cooperative relationship with INTERPARK, a large Internet network operator in Korea to further diversify products offering online.

- *Long-term cooperative relationships with logistics service providers to fulfill and deliver customers orders nationwide, efficiently and at competitive costs.* We maintain cooperation arrangements with a number of third-party logistics service providers to deliver our products to our customers as well as established long-term cooperative relationships with Anxun Logistics and GOME Ruidong. As of December 31, 2016, we had established cooperative arrangements with over 580 third party transportation service providers. Under the logistic services arrangement with Anxun Logistics and GOME Ruidong, they have agreed to provide and to procure other member companies of the Parent Group to provide logistics services to our offline and online business. For details, see "Business—Logistics and warehousing." We set requirements and standards to our logistics service providers for delivery to meet our goal, that is, "three deliveries/day, precise delivery and installation with delivery" services. We have established advanced information technology system that is integrated with our supply chain system and is capable of managing and tracking all of our orders. We pursue an asset-light strategy in logistics to lower costs and enhance flexibility when scaling up the operations. In 2014, 2015 and 2016, the delivery expenses as a percentage of our revenue was 0.77%, 0.67% and 0.72%, respectively.

- *Professional and high quality after-sales services*. With the support of nationwide after-sales network which comprised 199 local after-sales branches and over 2,000 third-party service providers, 24 hour hotline services as of December 31, 2016 and 30 years' extensive experience, we have been able to provide professional and high quality after-sales services to customers through our omni-channel after sales platform. Our after-sales services extend from professional installation upon delivery, return or exchange of defective products to repairing, cleaning and maintaining, and recycling. In the first half of 2016, we launched "GOME House Manager," an O2O service platform, to further extend our after-sales services to include a mobile terminal on which the delivery information, e-manual and e-warranty cards are available to consumers. We have also established a comprehensive evaluation system to closely monitor after-sales services provided by ourselves and third-party providers. We believe our comprehensive after-sales service has increased our customers' frequency of purchase and enhanced customer loyalty.

We believe our efficient supply chain management system effectively supports the integration of our online and offline sales network, lays a solid foundation for the development of our omni-channel sales platform and enables us to increase market penetration.

Economies of scale coupled with stringent cost control management

Due to our market-leading position, depth and breadth of our distribution network, and our long-term relationship with suppliers, we have been able to enjoy economies of scale. In 2014, 2015 and 2016, we recorded consolidated gross profit margin (being gross profit plus other income and gains divided by revenue) of 18.5%, 17.8% and 16.1%, respectively.

We have adopted a series of measures to control our procurement cost and operating expenses. Our long-term cooperative relationships with selected domestic and international suppliers enable us to obtain what we believe to be favorable terms from such suppliers, including sales rebates and favorable credit terms which help us to control our procurement cost and manage working capital. We have also been making continuous efforts to control our operating expenses, in particular, rental cost, a major component of our operating expenses. Of our 1,628 stores as of December 31, 2016, we strategically owned 39 stores, with 34 located in the First-tier Market, where the rent is typically at a relatively high level and a majority of these 39 stores are flagship stores. We also own a key regional distribution center in Shanghai with a storage area of 30,000 sq.m. The rest of our stores are located at leased premises, most of which have terms ranging from five to ten years, and our 214 warehouses are also located at leased premises with an average term of three years. Through this two-pronged strategy, we have been able to effectively control our operating expenses in market where we operate. As a result of these cost control efforts, we recorded rental cost as a percentage of sales revenue of 5.2%, 5.2% and 5.4%, respectively, in 2014, 2015 and 2016, at what we believe to be a competitive level in our industry.

Proven track record underpinned by prudent financial management policies

We have been able to maintain our financial performance through prudent financial management. We consider cash flow management top priority in managing our operations. We have implemented various financial policies to maintain adequate cash flow. We closely monitor our capital structure, generally lease real estate to reduce our capital expenditures, actively explore diversified financing sources, including bank loans, equity and debt financing, to control financing costs, effectively establish receivables management system to frequently monitor receivables, and strategically manage our payables by focusing on cooperation with strategically selected suppliers to obtain favorable credit terms. As such, we recorded net operating cash inflows while achieving strong growth in recent years. In 2014, 2015 and 2016, we recorded net operating cash inflow of RMB861.3 million, RMB1,312.7 million and RMB2,685.2 million (US$386.7 million), respectively. Our cash flow turnover days (being inventory turnover days plus trade receivables turnover days minus trade payables turnover days) were negative 68, 62 and 58 days, respectively, in 2014, 2015 and 2016. In addition, we maintain a prudent leverage ratio. As of December 31, 2014, 2015 and 2016, our net debt (being interest-bearing bank loans plus Corporate Bonds payables minus cash and cash equivalents) to EBITDA ratio was negative 2.8x, 3.1x and 2.9x, respectively.

We have established cooperative relationships with, and received loans and financings from, major PRC and international banks. See "Description of Other Material Indebtedness" for details. Through our initial public offering in 2004 and the offering of the Corporate Bonds, we were able to further diversify our financing sources and obtain funding through accessing the capital markets. We believe our multiple financing channels will provide us with flexibility to fund our operations and enhance our liquidity position.

We believe that our prudent financial policies will enable us to further expand in our target markets, provide us with greater flexibility in capital management and help us achieve sustainable long-term growth.

Experienced management team and transparent corporate governance

Members of our management team have an entrepreneurial spirit, extensive operational expertise and an in-depth knowledge of, and experience in, China's electrical appliance and consumer electronic retail industry. Our board of directors and senior management members, have an average of more than 10 years of experience in the retail and home appliance industries. Mr. Zhang Da Zhong, our Chairman, has 24 years of experience in these industries. Mr. Wang Jun Zhou, our President, has over 16 years of experience in the sale and management of electrical appliances. Mr. Fang Wei, our Chief Financial Officer, has 24 years of experience in finance management, internal control, budget control and capital management. In addition, we rely on valuable guidance provided by our non-executive Directors, each of whom brings along a wealth of experience in fields such as retail business and e-commerce. For example, Ms. Huang Xiu Hong, has 26 years of experience in the retail industry.

We believe we have an established, transparent and sound corporate governance system underpinning our business development. Through our acquisition of Artway in March 2016, we have enhanced our corporate governance as a result of reduced connected party transactions, a more simplified corporate structure and reorganization of the nomination committee by increasing representatives from independent Board of Directors. The nomination committee currently consists of one non-executive director not nominated by Mr. Wong or his associates, and three independent non-executive directors. Currently, our Board comprises one executive Director, three non-executive Directors and three independent non-executive Directors.

We believe the leadership, vision, management experience and the proven track record of our management team has been and will continue to be instrumental in driving our success.

BUSINESS STRATEGY

Through "Omni-Channel, New Scenario and Strong Linkage" ("全渠道、新場景、強鏈接"), our goal is to become a leading omni-channel retailer with a dominant market position in electrical appliance and consumer electronics retail industry in China. We believe our strong brand name, efficient supply chain and nationwide retail network have laid a strong foundation for us to achieve our goal. We plan to solidify our market position across channels and regions in China, achieve stable growth and further strengthen our profitability through implementing the following strategies in our offline, online and supply chain platforms:

Optimize offline retail sales network and increase sales contribution from Second-tier Market

We plan to optimize our offline retail sales network and increase sales contribution from the Second-tier Market. We will continue to evaluate performance of stores in each market, close underperforming stores to enhance profitability, and redirect resources to stores that are core to our operations and profitability. During the year ended December 31, 2015 and 2016, we closed 117 and 268 stores, respectively, and most of the closures took place in the First-tier Market as a result of relatively intense price competition and high operating costs. We believe the Second-tier Market presents strong growth opportunities and higher profitability, as evidenced by Artway Development's relatively higher gross margin in the six months ended June 30, 2016. From 2014 to 2016, we had successfully expanded sales contribution generated from the Second-tier Market from approximately 20.5% to approximately 24.7%, partially as a result of the acquisition of Artway Development. We plan to further expand presence in the Second-tier Market in order to further capitalize on growth potential driven by favorable macro policies such as "One Belt One Road" ("一帶一路"), urbanization and rising disposable income.

Upgrade and remodel stores to stimulate traffic and consumption

We plan to increase offline foot traffic through store remodeling and digitalization to enhance customers' shopping experience. We believe offline stores remain an important channel in electrical appliance and consumer electronics industry in China. However, consumer behaviors have shifted in recent years, and consumers are increasingly focused on in-store shopping experience and services. In line with the latest market trend, we are committed to providing consumers with novel shopping experience. We have been renovating stores, and will continue to remodel stores in targeted areas in our core markets to stimulate traffic, increase sales productivity and profitability. Consistent with stores that have already been renovated, we plan to introduce different settings in these new, remodeled stores, such as "Game Zone" which allows customers to play video games and compare quality of different televisions, "Fruits and Vegetables Experience Zone" which allows customers to try fruit/vegetable juice products made by different machines, as well as "Virtual Reality Zone" which allows consumers to visualize furniture and interior design in three dimensions. In addition, we will continue to digitalize our stores to improve connectivity with our customers. Examples include introducing free Wi-Fi in more stores to attract traffic, introducing devices in stores that will allow customers/staff to check availability of products and inventory instantly, and pushing through product information and promotions to consumers' mobile device when they are shopping in our stores.

We believe these initiatives and the personalized shopping experience that we bring to customers will encourage spending as they become better informed and more connected with our sales force.

Increase sales contribution from differentiated and overseas product offerings

We target to increase sales contribution from differentiated products as margin of differentiated products are typically higher. To this end, we plan to leverage our scale, distribution channels, and strong relationship with suppliers to increase differentiated product offering sourced domestically and from overseas. We target to increase sales contribution of differentiated products from approximately 40% in 2016 to 50% in the next few years. For example, we will continue to work with our partners to launch internet TV products that are exclusive to GOME retail channel. We will also continue to strengthen our strategic cooperation with our international partners and explore new partnership opportunities to increase our diversified overseas product offerings.

Prudently expand our online operations through increasing product offerings online, expansion of "GOME TOGO," partnership and marketing events

We intend to prudently expand our online presence to address our customers' preferences and increase scale of business. Depending on market condition, we will evaluate and tailor our strategy accordingly. We continue to develop our online business as we believe it is complementary to our offline network. In response to the growing prevalence of mobile shopping, we plan to expand our "GOME TOGO" mobile micro shops network. Currently, we only allow GOME's employees to be shop owners of "GOME TOGO," and in the future, we plan to open the platform and allow additional qualified personnel to become shop owners as well in order to increase traffic and sales volume.

Through further integration of our supply chain network and system, we plan to expand product offerings available online. Currently, product mix is different in our online and offline platforms. Products sold through our offline network typically carry higher margin. In the future, we plan to expand product offerings available online and introduce more differentiated products in our B2C platform in order to enhance traffic and improve margin.

In addition, we intend to strengthen cooperation with existing online partners and continue to explore partnership opportunities. Currently, our online flagship store on Amazon distributes products across China. As part of the agreement, we also provide warehousing and after-sales services to Amazon's customers, which contributes to our revenue and profitability. In the future, we will continue to explore other partnership opportunities to further expand our online presence in a cost-efficient manner.

Furthermore, we will continue to promote sales through marketing events. Our marketing events have been well received by our customers. We plan to introduce more innovative elements in our marketing events to create differentiation from our competitors. For example, on "15 April" Welfare day, we introduced crowd-funding campaign, and in December 2016, we launched Internal Sale Carnival and the GOME 30th Anniversary Celebrations which have further driven up sales.

Continue to expand our presence in after-sales and third party warehousing

We target to become a leading after-sales service provider in the electrical appliance and consumer electronics retail industry in China. After-sales service increases our customers' frequency of purchase, and expansion in this segment is also expected to increase our profitability. In the future, we are planning to expand the scope of after-sales services, extend services to more regions and launch marketing activities in "GOME House Manager" to expand the platform. We currently offer third party warehousing services, ranging from picking and packing, labeling and other value-added services in addition to storage, to third parties such as our suppliers and Amazon. We will seek to continue to expand our operations in third party warehousing in order to further monetize from our existing supply chain infrastructure and improve utilization rate.

Continue to invest in supply chain and information technology infrastructure to improve sales and efficiency

To support our expansion strategy in the Second-tier Market, we plan to develop regional distribution centers to optimize product replenishment process, shipment process, inventory and quality control. As such, we plan to acquire additional regional distribution centers in Chengdu, Chongqing, Guangzhou, Shanghai and Xi'an to further support our expansion plan, in particular, in the Second-tier Market.

Furthermore, we plan to continue to upgrade our information technology infrastructure to better support our retail stores, marketing events, warehousing and logistics management. We have been leveraging our big data to better understand and analyze customer's behavior, and we are planning to devote additional resources and make further investments into big data analytics in the future.

RECENT DEVELOPMENTS

A Connected Transaction with Parent Group Companies

On January 23, 2017, Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. (北京匯海天韻商務諮詢有限公司), our indirect wholly owned subsidiary, entered into an acquisition agreement with a number of companies of the Parent Group (the "Vendors"), according to which, we have agreed to acquire a 60% equity interest in Meixin Network Technology Company Limited (美信網絡技術有限公司) ("Meixin") from the Vendors at an aggregate consideration of RMB900 million (US$129.6 million). Meixin is a PRC company primarily engaged in the business of mobile social data platform with data-mining technology. Meixin's core product is GOME Plus, an application based on the "Social + Commerce + Benefit Sharing" model. Through such acquisition, we aim to, leveraging Meixin's technology and experience on consumer data, further integrate offline and online sales channels, enhance online-offline shopping experience and strengthen customer loyalty.

Proposed Change of Company Name

In light of growing convergence between online and offline retail, which has been shaped by new consumer behavior, our Company is transforming itself from an "appliance retailer" to an integrated provider of products and services. As such, the board of directors of our Company proposed to change the English name of the Company from "GOME Electrical Appliances Holding Limited" to "GOME Retail Holdings Limited" and to adopt the Chinese name "國美零售控股有限公司" for identification purpose in place of its current Chinese name "國美電器控股有限公司" in May 2017. The change of the Company name is subject to the passage of a special resolution by our shareholders at a special general meeting and the new English name being entered in the register of companies by the Registrar of Companies in Bermuda. Our shareholders have passed the special resolution approving the proposal of changing company name at the special general meeting held on June 12, 2017. We believe that the change of Company name will better reflect our current business focus and future strategies. The proposed new English and Chinese names will also provide the Company with a more defined corporate image and identity, which we believe will benefit our future development.

Recent Financial Information

According to the unaudited and unreviewed financial statements prepared in compliance with IFRS, for the three months ended March 31, 2017, we recorded revenue of approximately RMB17,392.0 million (US$2,505.0 million), gross profit of approximately RMB2,494.9 million (US$359.3 million) and net profit of approximately RMB59.5 million (US$8.6 million). Such financial information has not been subject to an audit or review and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors must exercise caution when using such data to evaluate our financial condition and results of operations. Such financial information for the three months ended March 31, 2017 should not be taken as an indication of our expected financial condition or results of operations for the full financial year ending December 31, 2017.

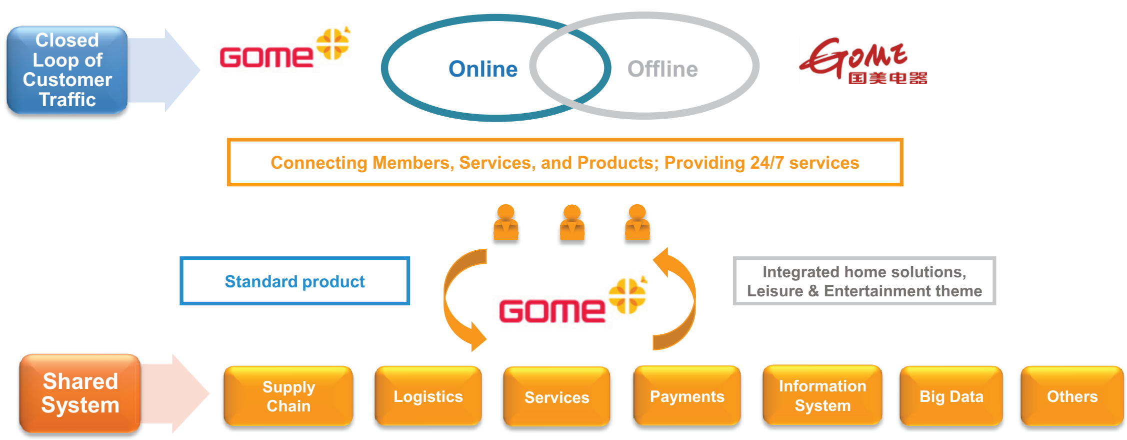
OUR OMNI-CHANNEL NETWORK

We sell electrical appliance and consumer electronic products in China through a comprehensive and integrated omni-channel platform. As of December 31, 2016, our omni-channel platform consisted of (i) a nationwide offline network of 1,628 offline stores spanning 30 provinces and autonomous regions and 428 cities throughout China, and (ii) online channel, including GOME-on-line, a comprehensive B2C shopping website, which is also accessible through mobile application, as well as social network platform through "GOME TOGO" mobile micro shops.

The table below sets forth the breakdown of revenue by our sales channels, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	For the year ended December 31,						
	2014		2015		2016		
	RMB	%	RMB	%	RMB	US$	%
						(unaudited)	
	(in thousands, except percentages)						
Offline Channels	56,482,331	93.6	57,856,625	89.6	65,997,590	9,505,630	86.1
Online Channels	3,877,512	6.4	6,738,502	10.4	10,697,435	1,540,751	13.9
Total	60,359,843	100.0	64,595,127	100.0	76,695,025	11,046,381	100.0

The below diagram illustrates our omni-channel platform supported by our integrated supply chain management system primarily encompassing procurement, logistics and after-sales, which is based on a community of consumers whose purchases are driven by their affinity to the retail and service ecosystem we aim to create.



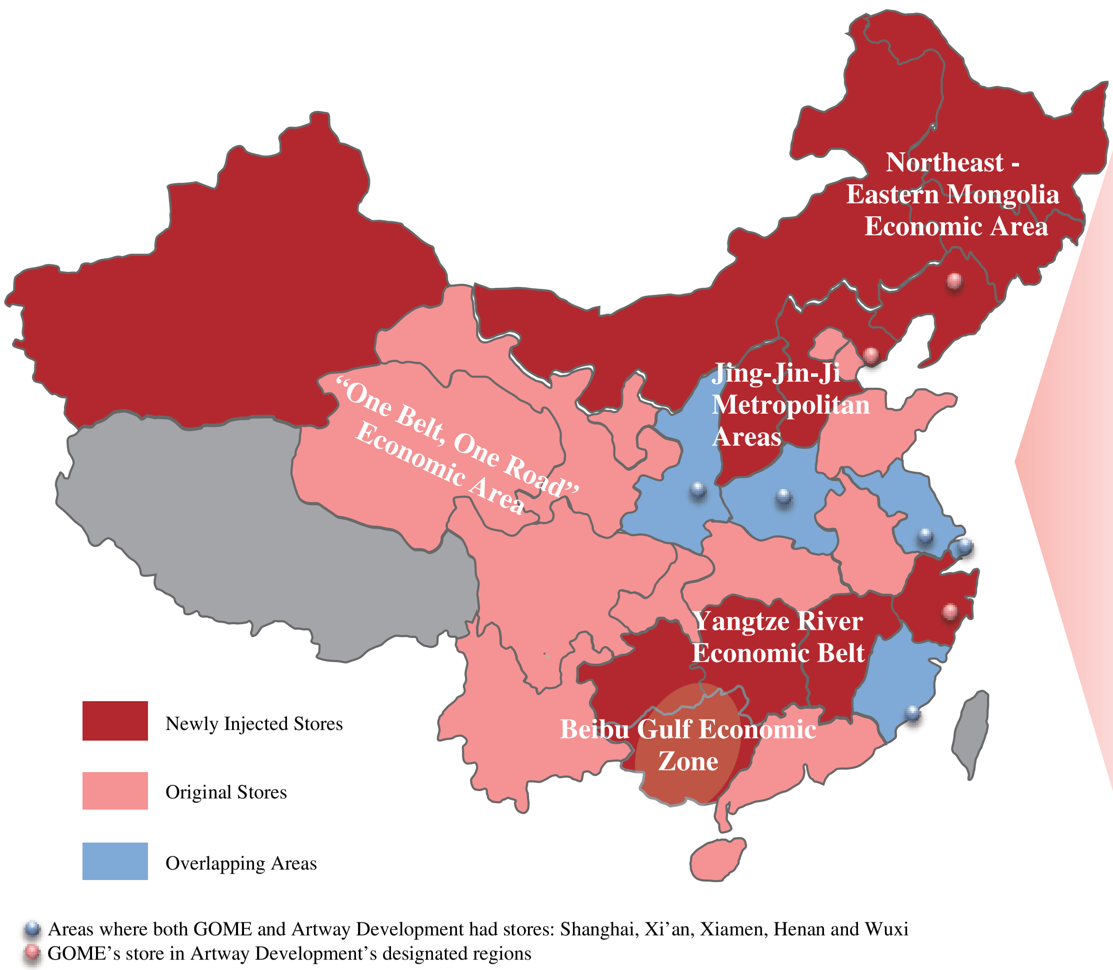
Our Retail Stores

Geographic Distribution

We opened our first electrical appliance retail store in Beijing in 1987. Through 30 years of operations, we have expanded our sales network nationwide in China with a focus on first-tier and second-tier cities and through strategic acquisitions of companies with dominant market positions to enhance our presence in respective regions. In 2006, we acquired China Paradise, the then third largest electronic product retailer in China with a dominant market share in Shanghai targeting middle-and upper-end consumers. In 2007, we acquired Cellstar, the then largest telecommunication retail chains in Shaanxi province in China. In March 2016, we completed the acquisition of Dazhong (which has been managing and operating by us since 2007), a top five home appliances retailer in China with a leading market position in Beijing. Through these efforts, our retail stores stably increased from 1,075 as of December 31, 2013 to 1,132 as of December 31, 2014, and further to 1,223 as of December 31, 2015. As of December 31, 2016, we operated our retail stores under these four brands, namely “GOME,” “Cellstar,” “China Paradise” and “Dazhong.” In March 2016, we completed the acquisition of

Artway, our then related party. The acquisition has successfully transformed us from a regional to one of the leading national players in retail by immediately enlarging our retail network coverage nationwide, in particular, in the Second-tier Market, and increasing our retail stores to 1,628 as of December 31, 2016, spanning 428 cities across China, covering first- to fourth-tier cities across 30 provinces and autonomous regions in China, other than Tibet.

The following map shows the geographic coverage of our retail stores (including our existing retail stores and the newly added retail stores through acquisition of Artway) across China as of December 31, 2016:



Region	Original Stores	Newly Injected Stores[(1)]	Region	Original Stores	Newly Injected Stores[(1)]
Beijing	75	0	Hefei	17	0
Shanghai	50	40	Xuzhou	18	0
Tianjin	33	0	Tangshan	6	0
Chengdu	67	0	Lanzhou	20	0
Chongqing	55	0	Wenzhou	10	0
Xi'an	104	5	Jiangxi	40	27
Shenyang	34	0	Anshan	0	4
Qingdao	37	0	Dalian	0	28
Jinan	41	0	Guangxi	0	36
Shenzhen	72	0	Guizhou	0	16
Dongguan	16	0	Hebei	0	22
Guangzhou	97	0	Heilongjiang	0	32
Foshan	33	0	Hunan	0	30
Wuhan	65	0	Jilin	0	10
Kunming	33	0	Nantong	0	8
Fuzhou	43	0	Inner Mongolia	0	19
Xiamen	41	9	Shanxi	0	33
Henan	47	51	Xinjiang	0	33
Ningbo	0	29	Changchun	0	10
Nanjing	36	0	Zhejiang	0	53
Wuxi	9	6			
Changzhou	10	0			
Suzhou	18	0	**Total**	**1,127**	**501**

The following table sets forth the number of our retail stores by brand and tier of market as of December 31, 2016, and the fluctuation in the number of our stores during 2016.

	Existing				Artway[(1)]	
	GOME	**China Paradise**	**Dazhong**	**Cellstar**	**GOME**	**Total**
Total	**899**	**134**	**45**	**49**	**501**	**1,628**
First-tier Market	470	90	37	39	255	891
Second-tier Market	429	44	8	10	246	737
Net decrease in store number	(66)	(23)	(6)	(1)	(55)	(151)
Number of stores opened	66	6	1	6	38	117
Among them:						
First-tier Market	31	3	–	6	18	58
Second-tier Market	35	3	1	–	20	59
Number of cities accessed	270	60	1	6	167	428
Among them:						
First-tier cities	21	9	1	1	15	38
Second-tier cities	249	51	–	5	152	390
Number of cities newly assessed	14	–	–	–	3	17

Note:

(1) refers to the sales network of Artway which have been consolidated into our existing sales network through the completion of our acquisition of Artway in March 2016.

Store Location and Site Selection

We believe that site selection is critical to the success of our retail stores. Over the years, our management has accumulated valuable experience in identifying and evaluating prospective store locations. Most of our retail stores are located within shopping malls, department stores or as standalone stores at commercial districts.

As a first-mover with 30 years of extensive experience in the electrical appliance and consumer electronics retail industry, and through a series of strategic acquisitions and expansions, we believe we have enjoyed a leading market position and competitive advantages in the First-tier Market in China. In 2014, 2015 and 2016, we had 693, 698 and 891 retail stores, respectively, in the First-tier Market, which contributed to in an aggregate approximately 79.5%, 77.7% and 75.6%, respectively, of our total revenue for the same periods.

To control our rental cost, we strategically and selectively own our core flagship stores located in the first-tier cities and lease the rest of the stores at the third parties' premises. Of our 1,628 stores as of December 31, 2016, we owned 39 stores, of which 34 were located in the first-tier cities. The rest of our stores are located at leased premises, most of which are with a term ranging from five to ten years. According to the lease agreements, our rental rates are generally calculated at a percentage of the monthly sales of our leased stores and we are generally entitled to rent free periods ranging from 30 days to 90 days.

We consider and evaluate the following factors when selecting a location to open a new store, which factors are premised upon better serving our customers:

- whether it is located in a central or prime shopping district;
- its convenience and accessibility for our target consumers;
- the expected pedestrian traffic;
- the size of the available space;
- the availability of supporting facilities, including parking lots; and
- competition in the surrounding area.

Store Design and Appearance

We are committed to offering consumers comfortable shopping experiences through optimizing store layout and shopping space planning. We operate three major categories of stores. "Flagship stores" are stores that have operating revenue of over RMB80 million per year with the widest spectrum of product selection. "Standard Stores" are stores that have operating revenue of over RMB36 million per year with a comprehensive product selection. "Specialized stores" are stores that have operating revenue of below RMB36 million per year with a focus on 3C products, including computer, digital products, telecommunication products and information technology products.

The following table sets forth the number of our retail stores by the three categories as of December 31, 2016.

	Existing				**Artway(1)**	
	GOME	**China Paradise**	**Dazhong**	**Cellstar**	**GOME**	**Total**
Flagship stores	198	36	25	–	103	362
Standard stores	306	39	17	–	139	501
Specialized stores	395	59	3	49	259	765
Total	899	134	45	49	501	1,628

Note:

(1) refers to the sales network of Artway which have been consolidated into our existing sales network through the completion of our acquisition of Artway in March 2016.

Each of our retail store designs presents a consistent image, store atmosphere and layout, particularly through the same store logo, interior decoration style and background music and unified sales staff uniforms.

The following pictures illustrate some examples of the appearance of our retail stores:



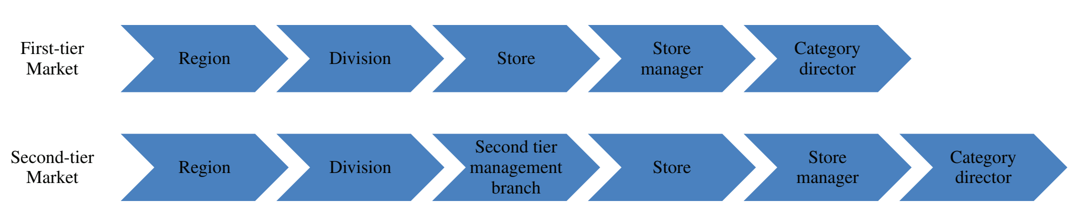


Store Management and Operations

We facilitate our sales network management by dividing it into six regions, namely, Northeast China, South China, Eastern China, Western China, Northern China I (covering Beijing, Hebei and Tianjin) and Northern China II (covering Shanxi, Shandong and Henan). We further divide our sales network into two tiers of markets, namely, First-tier Market, which covers most of the first- and second-tier cities and also some of the third- and fourth-tier cities where our retail stores are located and such retail stores' annual sales revenue generally exceeds RMB150.0 million (US$21.6 million), and Second-tier Market, which covers the cities where our retail stores are located other than those in the First-tier Market. For each of the two tiers of the market, we set up multi-layer management at regional, division and individual store levels.

The following flowchart illustrates our multi-layer sales network management system.

First-tier and Second-tier Markets stores network management



- *Regional level*: We set up regional headquarters which provide guidance and monitoring to the daily operations in each major region. The regional headquarters also advise on promotion and obsolete of sales personnel based on results of performance assessments.

- *Division level*: We have management teams at division level to develop and execute strategies in each division. Our divisions review and supervise business management teams at all lower levels, including formulate criteria of performance assessments and publish performance assessment results of sales personnel.

- *Second-tier management branch*: In 2016, we restructured the management of our stores in the Second-tier Market mainly by establishing second-tier management branch, with a dedicated second-tier management branch manager being responsible for the implementation of second-tier marketing strategy.

- *Store level*: The individual stores are required to adhere to the operating manual set by our headquarters and conduct annual or quarterly training plans. We also appoint a store manager and a category director for each store, who are responsible for setting up sales plans, allocating tasks and providing guidance to store staff members to carry out the sales plans, and regularly reflecting on the plan goals.

We partnered with supermarkets and department stores nationwide to enhance customers' accessibility to our high-quality products under concessionary arrangements or by leasing premises in supermarkets and department stores. In 2014, we partnered with Wumart (Beijing) and Lianhua Supermarket (Shanghai). Under concessionary arrangements, we occupy and sell our products in designated areas of our partners' stores as concessionaires. In return, we pay our partners commissions expressed as a percentage of the gross sales proceeds. In addition, we made further improvements to these 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.

To optimize our nationwide offline sales network, in the First-tier Market, we established flagship stores in prime business districts, closely monitored the development of small-scale and community stores which generate revenues less than RMB30 million, and closed underperforming stores; and in the Second-tier Market, we closed underperforming stores, directed resources to our core flagship stores, and opened stores in areas with lower cost and where we have a leading position in terms of brand reputation and can be covered by our logistics service and supply chain.

To provide full-range services to our customers, we have been installing digital directories and Wi-Fi facilities in our offline stores. We have also opened new flagship stores or upgraded some of the existing flagship stores to offer our customers "new scenario experiences" on a trial basis in certain major cities, such as Beijing, Shanghai, Tianjin, Chengdu and Ningbo. The "new scenario" initiative is aimed at transforming our store environment that was previously limited to product display and purchase and sale of products to a more interactive setting that involves our customers to try out products. For example, the set up of virtual reality (VR) zone, unmanned aerial vehicles (UAV) zone, fruits and vegetables experience zone, game zone and air purifier zone aims at educating consumers on innovative technologies.

Our Online Platforms

In addition to our retail stores, we also sell our products via online sales platforms and social network platforms on mobile micro shops. We believe our online business is complementary to our offline network. We also believe that maintaining a strong presence on popular online platforms helps improve our brand visibility and awareness, especially in regions where we have yet to establish a physical presence through our retail stores, as well as giving our customers the convenience of "24/7" shopping on demand.

As of December 31, 2016, our online platforms comprised (i) GOME-on-line shopping mall accessible through mobile application and (ii) "GOME TOGO" mobile micro shops.

GOME-on-line

We launched our online shop, GOME-on-line (www.gome.com.cn), in 2011, to boost direct sales of our electrical appliances and consumer electronic products and, at the same time, to provide a sales platform for a wide range of merchandise through third-party shops. GOME-on-line is a comprehensive B2C shopping website that sells a wide range of merchandise through various business areas, including, among other things, B2C, B2B2C and group purchase. GOME-on-line is also available through mobile application on smart phones.

Currently, GOME-on-line has the following key elements:

- *B2C Business*: we sell electrical appliance and consumer electronic products on our GOME-on-line platform, aiming to enable our customers to purchase our merchandise anytime and anywhere. As of December 31, 2016, we had over 120 flagship stores of leading brands on GOME-on-line.

- *GOME-on-line Market Place*: we provide a sales platform for a wide range of merchandise sold by third-party shops. We receive commissions from the third-party shops for services rendered on our online platform. The wide range of products sold on our GOME-on-line market place includes electrical appliances, financial services, gold, automobiles, virtual reality and department stores businesses. Through such initiative as an online platform service provider, we believe we are able to gain more exposure for non-home electrical products, attract a wider and diversified group of customers, and increase overall sales volume.

- *Cross-border E-commerce*: To capitalize on growth potential for imported products, we launched our online overseas shopping platform, gomehigo.hk, and opened the first physical experience store for imported goods in Changzhou. In December 2015, gomehigo.hk launched the overseas shopping business with shopping channels for products from Japan, Korea and Australia. As of December 31, 2016, the Australian channel had brought in over 360 local products, covering health products, food, toiletries, wine and other popular products in Australia. In June 2016, we entered into cooperation with INTERPARK, a large Internet network operator in Korea, to open our channel to quality Korean merchandise.

We have been continuously improving GOME-on-line's customer experience. With an aim to achieve "Complete Coverage in Delivery, 24/7 Delivery On-demand," GOME-on-line has continued to improve its logistics delivery services. As of December 31, 2016, GOME-on-line was able to provide 24/7 scheduled delivery, and has the capacity to deliver within the same day for order placed in the morning and within the next day for order placed in the afternoon and evening in 366 prefecture level cities nationwide.

In addition, by pre-installing GOME-on-line mobile application on mobile phones sold through our stores and suppliers, we were able to drive the sign-up rate for mobile terminal members on GOME-on-line. Furthermore, we have enabled the sharing of online and offline membership data to allow offline members to redeem their reward points online, which we believe, have increased customer loyalty.

In 2014, 2015 and 2016, the total GMV (including transaction amount from the marketplace) of GOME-on-line amounted to RMB7,161.3 million, RMB15,357.5 million and RMB32,264.2 million (US$4,647.0 million), receptively. The number of our active members, being consumers who have at least one recurring purchase in a year, increased from approximately 51 million as of December 31, 2014 to over 86 million as of December 31, 2016.

"GOME TOGO" Mobile Micro Shops

To strengthen our e-commerce sales capabilities and further extend our customer reach, we have been actively exploring new mobile sales models to take advantage of the increasing popularity of social media networks in China. In December 2015, we launched "GOME TOGO" mobile micro shops, a new "mobile micro-shop" sales platform, in which our sales personnel can register with us as sellers and sell the same products that are available at our retail stores to customers through their "mobile micro-shops," and in return receive a commission for each sale. Our sales staff are encouraged to promote our products on social network to attract end-customers to their "mobile micro-shops" to make purchases. End-customers will be able to conveniently purchase products available at our retail stores in one of these "mobile micro-shops" directly through their social media accounts or via a range of other payment options. We believe the superior shopping experience and valuable services offered through our integrated online and offline sales channels will help attract more end-customers and enhance customer "stickiness."

In addition to GOME-on-line and "GOME TOGO" micro shops, we have been further exploring new online platforms, for example, Internet TV, to extend our customer reach and integrate with our offline sales network and supply chain management. In September 2015, we began partnering with MTC, Oriental Pearl, SMG, Wenguang Group and Haier on development of Internet TV – "Fengxing TV" through acquisition of a 1.6% equity interest in MTC. The Internet TV has customizable features. Through the partnership with Oriental Pearl, Fengxing TV offers customers one to two years free-video service through pre-installed software, enabling customers to have easy access to a wide range of movies, TV dramas and TV shows. As of December 31, 2016, approximately 500,000 Haier TVs equipped with Fengxing TV system were sold. In July 2016, we established cooperation relationship with Mango TV/Hifun TV in order to sell VIP cards on Mango TV/Hifun TV through our specified TV products.

In April 2016, we entered into a strategic cooperation with Amazon and started our GOME online flagship store on Chinese Shopping Mall of Amazon. As of December 31, 2016, our GOME online flagship store offered almost 70 brands and over 5,000 electrical appliance and consumer electronics nationwide.

Retail Pricing

We price our products based on various factors, including, (i) costs of purchases from our merchandise suppliers; (ii) results of market research and analysis (including consumption propensity of our target customers and market trends); (iii) purchasing power of our target customers; (iv) our expected profit margins; (v) product prices set by our competitors; and (vi) pricing policy of our brand suppliers.

OUR PRODUCTS

We offer a wide spectrum of electrical appliances and consumer electronic products sourced from both international and domestic suppliers. Our current product offering comprises over 10,000 brands and over approximately four million stock keeping unit ("SKU"). Our merchandising plans are reviewed regularly to ensure our stores contain the latest products and brands. We offer a wide range of electrical appliance and consumer electronic products in China and have been continuously expanding our product offering to cater to evolving customer needs and preferences. Our products can be broadly divided into the following seven main categories:

Product category	Main products
Audio visual products	TV, Stereo, DVD and other audio-video products
Refrigerators and washing machines	Refrigerators and washing machines
Air-conditioners	Vertical air conditioners and wall-hanging air conditioners
Telecommunication products	Communications products such as mobile phone, landline and intercom
Small electrical appliances	Microwave ovens, rice cookers, water heaters, exhaust hoods and other white color small home appliances
Information technology products	Desktop computers, tablet and notebook computer products
Digital products	Digital cameras, headphones, headsets, electronic dictionaries and other digital products
Others	Remote control device, water level sensor and PC control board

The following table shows a breakdown of each product category's contribution to our total consolidated revenue:

	For the year ended December 31,						
	2014		2015		2016		
	RMB	%	RMB	%	RMB	US$	%
						(unaudited)	
	(in thousands, except percentages)						
Audio visual products	13,283,458	22.0	12,892,093	20.0	14,578,820	2,099,787	19.0
Refrigerators and washing machines	12,129,385	20.1	12,995,659	20.1	15,939,049	2,295,701	20.8
Air-conditioners	10,519,954	17.4	11,285,561	17.4	14,447,883	2,080,928	18.8
Telecommunication products	9,360,787	15.5	10,635,788	16.5	11,632,272	1,675,396	15.2
Small electrical appliances	7,663,942	12.7	8,880,943	13.7	11,348,583	1,634,536	14.8
IT products	5,343,933	8.9	5,785,922	9.0	6,606,901	951,591	8.6
Digital products	1,937,209	3.2	2,022,214	3.1	2,088,615	300,823	2.7
Others	121,175	0.2	96,947	0.2	52,902	7,619	0.1
Total	60,359,843	100.0	64,595,127	100.0	76,695,025	11,046,381	100.0

We have been making continuous efforts to increase sales and profitability through diversifying and differentiating our product offering. By leveraging long-term relationships with our key suppliers, not only are we able to procure product at low prices, we are also able to secure exclusive distribution right for some products from the suppliers, such as a majority of types of products of Sanyo TVs, some models of DIQUA washing machines and Electrolux air conditioners. The percentages that the differentiated products contributed to our total revenue increased from approximately 30% in 2013 to approximately 40% in 2016. The average gross profit margin of the differentiated products was approximately 20% in 2016, which is relatively higher than that of the products (including differentiated and standard products) of 16.1% in 2016.

PROCUREMENT

Our ability to identify and purchase an appropriate mix of merchandise that is in line with the latest market trends and customer preferences is critical to our success. To ensure an effective procurement process, our headquarters' product divisions and our branch offices work together to formulate purchasing strategies based on historical sales records, customer preferences and purchase patterns, market trends and the number of new stores opening in the next year.

We have adopted various measures to effectively manage procurement through a combination of procurement at a central level and a regional level. We strategically enter into central procurement contracts with selected, most well-known brands, such as Apple, Samsung, Haier, Gree and Midea, and we also conduct local procurement for branded products which are popular at a particular region. Through the acquisition of Artway, our procurement scale has been enlarged, which increases the quantity of products that we purchase each time, thus increasing our bargaining power with our suppliers. In 2016, the total procurement amount was approximately RMB66.3 billion. As of December 31, 2016, our procurement department consisted of 2,350 employees.

We have been improving our procurement strategies in recent years based on our estimate or prediction for customer demands generated by our big data analytics platform. We have also adopted the F2C model to enhance the supply chain capability. Not only are we able to procure products at low prices, we also take initiatives to negotiate with our key suppliers to procure high-end imported products. For example, we have imported Panasonic multi-door refrigerators to enrich and differentiate product offerings from our competitors. Such imported products featured high gross profit and high commission. We have also leveraged our economies of scale and purchasing power to enlarge our portfolio of exclusive products, take better control of pricing and enhance profitability.

SUPPLIERS

Our supplier include domestic and international electrical appliance and consumer electronics brand companies. In 2014, 2015 and 2016, the products supplied by our largest supplier as a percentage of total procurement accounted for approximately 11.5%, 9.8% and 9.5%, respectively, and products supplied by our top five suppliers (in terms of brands), namely, Haier, Samsung, Midea, Gree and Apple, as a percentage of total procurement accounted for approximately 40.9%, 43.0% and 41.5%, respectively.

We have entered into supply agreements with our suppliers which typically range from one year to three years. These supply agreements set forth fundamental terms in relation to supply prices, inventory managements, credit terms and product liability related obligations. Under certain supply agreements between our key suppliers and us, the suppliers have agreed to offer us favorable sales rebate with respect to specific types of products and have agreed to sell to us at relative low prices compared to other retailers.

We have continued to maintain long-term, stable and strong strategic partnerships with our suppliers, including Haier, Gree, Apple, Samsung, Midea, TCL, Hisense, Skyworth, HUAWEI, Sony and OPPO. We have already had more than 10 years of partnership relationships with most of our suppliers. We believe that our contribution to our key suppliers' revenue in China is significant. As a result, we have been able to negotiate supply agreements with our suppliers on favorable terms. For example, the supply agreements sometimes include a fixed gross profit margin guarantee by the suppliers, enabling us to maintain the same gross profit margin in the event of any upward or downward price adjustments by the suppliers.

MARKETING AND SALES

We advertise by way of television advertisements, subway advertisements and direct marketing. For example, we have hired celebrities, such as Gao Yuanyuan and Feng Shaofeng, to be our spokespersons and GOME-on-line also sponsored the 2016 CCTV Spring Festival Gala. In addition, we participate in charity events, media publications and other social activities to enhance our corporate image. We had a marketing team comprised of approximately 412 employees as of December 31, 2016.

We host a wide variety of promotional campaigns, particularly during holiday periods. We have successfully launched major sales campaigns, such as "March 11 Black Friday," "April 15," "June 17," "September 17" and "December 18" sale carnivals to further enhance customer loyalty. We launched a "Crowdfunding Partners Sharing" campaign in the second quarter of 2016 by which consumers could enter a website to participate in crowdfunding before the events start and they can receive a discount on their purchases once the "crowdfunding" goal was hit.

We have enabled the sharing of online and offline membership data. We also conduct marketing through our membership program and the number of members in the program has increased significantly since we launched the program in 2005. The number of members increased from approximately 130 million on December 31, 2014 to approximately 200 million on December 31, 2016.

LOGISTICS AND WAREHOUSING

Supply chain is one of our core competitive strengths. We have established a three-dimensional supply chain network consisting of regional warehouses, city warehouses and terminal distribution centers. Our Shanghai Qingpu warehouse, which was put into use since 2009, is one of our key distribution centers. As of December 31, 2016, our logistics network covered approximately 95.5% of China's total prefecture level cities, approximately 91.0% of China's total county level cities and approximately 71.0% of China's total towns nationwide and we have built warehouses in Xi'an, Ningbo, Shenyang, Chengdu, Shanghai and Guangzhou during the year of 2016. In addition, we also operated a chain of 1,628 stores across the country, which served as delivery and pick-up points. Customers in over 400 cities nationwide are enjoying the "Three deliveries/day, Precise delivery and Installations with delivery" customer services, which has become an industry benchmark. The "compensation on late delivery" extended service was launched and is being operated stably. Through the acquisition of Artway in March 2016, we have been able to achieve cost savings and increase operating efficiency through the integration of our logistics, warehousing and information technology platforms.

We maintain cooperative arrangements with a number of third party transportation service providers to deliver our products from our warehouses and stores to our customers. We have entered into logistic services agreements with Anxun Logistics and GOME Ruidong. Under the logistic services agreements, Anxun Logistics and GOME Ruidong have agreed to provide and to procure other member companies of the Parent Group to, at our request and from time to time, provide logistics services to our offline and online business for a period of three years from January 1, 2016 to December 31, 2018, subject to certain annual caps of the transaction amounts. We also maintain cooperation with third-party suppliers or merchants to ship products directly from these third-party suppliers or merchants to our customers. Third-party sellers utilizing GOME-on-line platform also use third-party couriers. As of December 31, 2016, we had established cooperative arrangement with over 580 third party transportation service providers.

We have improved logistics efficiency through cooperation with our logistics service providers in the following aspects: (i) implemented a multi-typed goods code scanning system, which has improved inbound and outbound logistics efficiency and accuracy; (ii) managed logistic vehicles through information technology systems to further reduce cost and streamline operation; (iii) redesigned warehouses to achieve higher efficiency and utilization rate; and (iv) built up regional small-size goods warehouses and the backbone network to connect warehouses in different regions.

We have also developed performance evaluation index for each logistics customer service staff to monitor the whole process of delivery, with a focus on the ratio of successful delivery. By adopting this method, we have achieved seamless inter-department cooperation and guaranteed the service quality.

COMPREHENSIVE AFTER-SALES SERVICE

We have established a nationwide after-sales network backed by (i) 199 local after-sales branches and over 2,000 third-party service providers as of December 31, 2016 covering over 400 cities in China, (ii) 24 hour hotline services, (iii) "GOME House Manager," an O2O service platform launched in April 2016 to further extend our after-sales services to include a mobile terminal on which the delivery information, e-manual and e-warranty cards are available to customers, and (iv) our 30 years of extensive experience. We provide after-sales services to our customers both directly and through third-party providers. As of December 31, 2016, our after-sales team consisted of more than 2,000 employees. Our after-sales services extend from professional installation upon delivery, return or exchange of defective products to repairing, cleaning and maintaining, and recycling. To keep pace with the current market environment, we have been offering a variety of training programs to our staff to improve service skills. We have adopted a multifaceted monitoring and appraisal method to closely monitor after-sales services provided ourselves and by third-party providers. We conduct appraisals on the third-party service providers on a regular basis in the following aspects: customer satisfaction rate, timeliness of service and complaint ratio.

Customer Management System

As a chain retailer of electrical appliances and consumer electronic products, we have always paid significant attention to our Customer Relationship Management system ("CRM"). We believe comprehensive after-sales services can enhance customer satisfaction and promote our brand and corporate image, which is a key element when cultivating and retaining customer loyalty. Our CRM, which is integrated with the ERP, offers an extended suite of services to customers, including membership management, customer complaint handling and after sales interviews functions.

GOME House Manager

GOME House Manager is an online after-sales service O2O platform launched by us in 2016. GOME House Manager is not only a mobile terminal that can provide delivery information, e-manual and e-warranty cards in a timely manner to our customers, it also provides users with a platform for repairing, cleaning and recycling services provided by third-party service suppliers. By leveraging our front-end store network and our cooperation with third-party partners, we are able to establish a strong linkage through the GOME House Manager platform with our consumers in a "self-operation plus third-party agency" mode.

As of December 31, 2016, we had been able to provide GOME House Manager services to 95% of the prefecture-level cities in China except for Tibet, Qinghai and Inner Mongolia regions, with more than ten million users on the platform.

INVENTORY MANAGEMENT

We have adopted a comprehensive inventory process to ensure appropriate levels of inventory at our stores, shown as follows:

- regional sales departments submit orders through ERP system;

- procurement departments submit orders for approval, (i) if amount less than authorized amount, approval by the regional sales department is required; and (ii) if amount more than authorized amount, approved by the headquarters is required;

- upon approval, procurement departments send the orders to suppliers; and

- suppliers provide products according to the orders.

In each store, the sales personnel works closely with the procurement departments in placing purchase orders and replenishment orders. Our inventory turnover days vary according to the type of merchandise. We ensure that we maintain adequate stock levels for generally fast-moving items to avoid being out of stock. For slow-moving items, we require our stores to maintain at least a minimum stock level in order to provide their customers with a wide variety of products. In most cases, we do not take inventory exposure risk associated with unsaleable goods by entering into agreements with most of our suppliers that any goods that are not sold within 50 days will be returned to the suppliers, at the cost of the suppliers, in exchange for cash or other goods. We occasionally take inventory exposure risks in return for higher margin.

In addition, we implemented "Warehouses Cloud" strategy based on the big data technology in 2015. By integrating suppliers' warehouses and GOME's warehouses, the "Warehouse Cloud" has effectively improved delivery efficiency, extended the supply of goods in remote areas as well as reduced our overall transportation costs. We have large warehouses in almost every First-tier Market while smaller warehouses in other markets.

INFORMATION TECHNOLOGY AND E-COMMERCE INFRASTRUCTURE

Our information technology infrastructure consists of a network security system, a financial information reporting system, a logistics management information system, a customer relationship management system and ERP.

We have strong research and development capability, as evidenced by our increases in intellectual property rights. In addition to order management and fulfillment, we have made significant progress in mobile technologies, internet technologies and cloud computing. For example, our newly-developed LMIS system is proprietary to us and aims to further improve our existing logistics system. The system includes two main functions which allows us to: (1) integrate our orders with third-party logistics service providers; and (2) use the PDA system to scan the International Article Number codes of goods, enabling multi-typed goods code scanning.

Our new procurement strategy is based on predicted customer demands generated by our big data, signalling a shift from our traditional procurement model that is driven by suppliers to a new procurement strategy that is more customer-oriented. F2C model has also been adopted to enhance the supply chain capability in terms of self procurement, inventory management and retail price management. Cloud computing and big data give us stronger bargaining power on price setting and enable us to adjust our product mix to obtain higher profit margin.

COMPETITION

Competition in the PRC retail market in recent years has become increasingly intense. Our key competitors are other local and internationally managed electrical appliance and consumer electronic retailers in China that offer a similar range of merchandise, as well as e-commerce stores or individual stores that offer similar or identical products. We also face competition from direct sales by the brand owners or their authorized distributors. To stay competitive in the retail market, we believe that a strong brand image and responsiveness to changes in customer preferences are essential. We also compete indirectly with shopping malls, hypermarkets, supermarkets, discount stores and specialty supply stores, some of which operate in chains.

AWARDS AND HONORS

We have received the following awards and honors:

Month/year of Awards	Title of Awards or Honors	Granted by
June 2016	Top 10 Chinese Commercial Brands 2016	11th China Retailers Convention
2004-2016 (13 consecutive years)	Top 500 Chinese Enterprises	China Enterprise Confederation
September 2016	Top 500 Asian Brands	11th Asian Brand Ceremony
2007-2015 (nine consecutive years)	Top 100 Most Valuable Brands of China	R&F Global Ranking Information Group Limited
October 2013	Top 10 Asian Most Trustworthy Brand	Asia Brand Association
June 2013	China's Top 100 Retailers	China General Chamber of Commerce
August 2012	The Most Popular Retail Brand of The Year; Most Popular Consumer Electronic Store of The Year	China Electronic Commerce Association and China Online Retail Top 100 Review Committee
October 2010	World's Top 500 Chinese Enterprises for 2010	World's Top 500 Chinese Enterprises Forum
July 2010	50 Best Chinese Brands in 2010	Forbes and Interbrand
October 2008	Most Admirable Chinese Companies of 2008	Fortune China

PROPERTIES AND LEASES

As of December 31, 2016, of the 1,628 retail stores with an aggregate total GFA of approximately 5.3 million sq.m., we owned 39 stores with an aggregate total GFA of approximately 0.3 million sq.m., while the remaining 1,589 stores with an aggregate total GFA of approximately 5.0 million sq.m. were under lease. The duration of the leases of these 1,589 stores was typically five years to 10 years. As of December 31, 2016, we owned Shanghai Qingpu warehouse, one of our major distribution centers, with an aggregate storage area of approximately 30,000 sq.m., and had 214 warehouses with an aggregate storage area of approximately 3.0 million sq.m. under lease, the average lease duration of which is three years.

INSURANCE

We maintain different types of insurance policies to cover our operations, including comprehensive asset insurance, public safety liability insurance, automobile liability insurance and product liability insurance to cover potential liability arising from the use of the products that we sell. We do not carry, however, insurance in respect of certain risks that we believe are not insured under normal industry practice in China, or which are uninsurable on commercially acceptable terms, if at all, such as those caused by war and civil disorder. See "Risk Factors—Risk Relating to Our Business—Our limited insurance coverage may not cover all losses, which may increase our operational costs."

EMPLOYEES

As of December 31, 2016, we had 50,460 employees.

Employee Function	**Number of Employees**
Procurement	2,350
Marketing	412
Management and Administrative	1,830
Financial	1,961
Information Technology	632
Store Operational	41,252
Others	2,023
Total	50,460

We recruit and promote 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.

We train our staff at all levels through orientation training and subsequent continuous on-the-job skills development training. We have developed various professional training courses and materials and arranged external trainers to enhance the quality of training.

INTELLECTUAL PROPERTY RIGHTS

We conduct our business and marketing primarily under our "GOME (國美)" brand name. The "GOME" trademark, a registered trademark in the PRC, is owned by Beijing GOME, a member of the Parent Group. We and Beijing GOME entered into a Trade Mark License Agreement dated April 30, 2004 (the "Trade Mark License"). Pursuant to the Trade Mark License, we are licensed by Beijing GOME to use the "GOME" trademark in connection with the retail sale of electrical appliances and consumer electronic products in the PRC at no cost and for the validity period (including any extension period) of the registration of the "GOME" trademark. For details, see "Risk Factors – Risks Relating to Our Business and Industry – We do not own the "GOME" trademark, which is licensed to us by the Parent Group."

As of December 31, 2016, we had registered over 800 trademarks in China and three trademarks overseas. We had registered over 600 domain names with China Internet Network Information Center, a domain name registration organization in China, or with Internet Corporation for Assigned Names and Numbers.

As of December 31, 2016, we had not encountered any material third-party intellectual property infringement claims.

LEGAL PROCEEDINGS

From time to time, we may be involved in various legal proceedings and claims and administrative penalties that arise in the ordinary course of business. There had not been any legal proceedings or disputes that have resulted in any material adverse effect on us for the past three years ended December 31, 2016. We are not engaged in any litigation or arbitration of material importance and no litigation, arbitration of claim of material importance is known to us to be pending or threatened against us.

This section summarizes the principal PRC laws and regulations that are relevant to our business and operations. These include the laws and regulations relating to our electrical appliance and consumer electronics retail in the PRC and other relevant laws and regulations. As this is a summary, it does not contain a detailed analysis of the PRC laws that are relevant to our business and operations.

THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC government. Court verdicts do not constitute binding precedents, but are used for purposes of judicial reference and guidance.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil and criminal matters. The Standing Committee of the NPC has the power to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local rules and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council and the provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes or in order to enforce the law. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution holds the power to interpret laws in the Standing Committee of the NPC. The Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional rules and regulations is vested in the regional legislative and administrative bodies that promulgate such laws.

THE PRC JUDICIAL SYSTEM

Under the PRC Constitution and the Law of Organization of the People's Courts, the judicial system is made up of the Supreme People's Court, local courts, military courts and other special courts. The local courts are comprised of the basic courts, the intermediate courts and the higher courts.

The basic courts are organized into civil, criminal, economic, administrative and other divisions. The intermediate courts are organized into divisions similar to those of the basic courts, and are further organized into other special divisions, such as the intellectual property division. The higher level court supervises the basic and intermediate courts. The People's Procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next highest level. Second judgments or orders given at the next highest level and the first judgments or orders given by the Supreme People's Court are final. First judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgment that has been given in any court at a lower level, or the presiding judge of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on April 9, 1991 and amended on October 28, 2007 and August 31, 2012, respectively, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence or the place of execution or implementation of the contract or the object of the action. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request enforcement of the judgment, order or award. The time limit imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by the opposing party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognized and enforced by the court according to PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country that provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination based on the principals of reciprocity. However, a foreign judgment or ruling may not be recognized and enforced if the court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or would be contrary to social and public interests.

OVERVIEW OF LAW AND REGULATIONS RELATING TO THE RETAIL INDUSTRY

Since the 1990s, the PRC has been gradually relaxing its restrictions on foreign investment in the commercial retail and logistics sectors. However, prior to the PRC's entry into the WTO, foreign investors were still severely restricted from providing retail services in the PRC for both their own operations and for third parties. The following depict some of the key milestones of PRC's movement since the 1980s towards relaxing restrictions on foreign investments in the retail sector:

In July 1992, trial operations of one to two Sino-foreign equity joint venture or Sino-foreign cooperative joint venture commercial retail enterprises were carried out in each of Beijing, Shanghai, Tianjin, Guangzhou, Dalian, Qingdao and five special economic zones. Under the Response to the Application of Foreign Capital on the Commercial Retail Industry (國務院關於商業零售領域利用外資問題的批覆) ("Application of Foreign Capital Response") issued by the State Council, foreign invested commercial enterprises became subject to the review and approval of the State Council through the reports of local governments. The operating scope of foreign invested commercial enterprises included department store retail business and import and export business.

In June 1999, the permitted geographic coverage of Sino-foreign equity and cooperative joint venture commercial retail enterprises was expanded by the Experimental Measures for Commercial Enterprises with Foreign Investment (外商投資商業企業試點辦法) ("Experimental Commercial Enterprises Measures") issued by the State Council, the State Economic and Trade Commission and Ministry of Foreign Trade & Economic Cooperation ("MOFTEC," later restructured into MOFCOM) to capital cities of provinces and autonomous regions, municipalities directly under the central government, special economic zones and municipalities under independent development plans. Wholly foreign invested enterprises were not allowed to be established in the industry at that time. Moreover, the establishment of Sino-foreign equity or co-operative joint ventures had to comply with commercial development planning rules in the relevant area. To gain access to the PRC market, non-PRC retailers had to apply for permission from the PRC government in accordance with the Experimental Commercial Enterprises Measures, which required high market entry thresholds. The Experimental Commercial Enterprises Measures were abolished when the Measures of Administrations of Foreign Investment in Commercial Sector (外商投資商業領域管理辦法) ("Commercial Enterprises Measures") took effect from June 1, 2004.

To fulfill the PRC's WTO commitment in respect of the opening up of its distribution services sector, MOFCOM issued the Commercial Enterprises Measures on April 16, 2004, which was implemented on June 1, 2004. There are a number of major changes in the Commercial Enterprises Measures, including permitting foreign investors to engage in the operation of distribution services on a wholly-owned basis from December 11, 2004. The Commercial Enterprises Measures are also expected to gradually enlarge the geographical coverage of foreign-invested commercial enterprises and lower the market entry threshold. After the implementation of the Commercial Enterprises Measures, foreign investors and operators may engage in the retail business in the PRC on a wholly owned basis and expand into geographical areas which were not opened to foreign investors for retail operations.

RETAIL INDUSTRY FOREIGN INVESTMENT LAWS AND REGULATIONS IN THE PRC

The Commercial Enterprises Measures provide for a one-step procedure and clear guidelines under which foreign investors can apply to establish commercial enterprises and open retail stores at the same.

According to the Commercial Enterprises Measures, a foreign-invested commercial enterprise must meet the following conditions:

(i) a minimum registered capital of RMB30,000 for a limited liability company or RMB100,000 for a one-person limited liability company in compliance with the requirements of PRC Companies Law;

(ii) compliance with the standard total investment and registered capital requirements for foreign invested enterprises; and

(iii) in general, a term of operation not exceeding 30 years, or 40 years in the mid-western region of the PRC.

The procedures for establishing a foreign-invested commercial enterprise involve the submission of an application, including a project proposal, feasibility study and other required documents, to the relevant provincial commerce department or MOFCOM for approval. According to the Notice of the Ministry of Commerce on Entrusting Local Department to Check Foreign-invested Commercial Enterprises (商務部關於委託地方部門審核外商投資商業企業的通知) issued by MOFCOM on December 9, 2005, MOFCOM authorized the provincial commerce departments and the committees of national economic & technology development zones to handle some of the foreign-invested commercial enterprise approvals. According to the Notice of the Ministry of Commerce on Transferring Approval Rights of Foreign-invested Commercial Enterprises (商務部關於下放外商投資商業企業審批事項的通知) issued by MOFCOM on September 12, 2008, the provincial commerce department shall be the approval authority of the establishment and modification of foreign-invested commercial enterprises, except for those that engage in sales by television, telephone, mail order, internet, or vending machine, those that engage in the wholesale of audiovisual products and those that engage in the sale of books, newspapers and magazines. In addition, pursuant to the Notice of the Ministry of Commerce on the Verification and Administration of Part of Foreign-invested

Service Enterprises by Provincial Commerce Department and National Economic & Technology Development Zone (商務部關於省級商務主管部門和國家經濟技術開發區審核管理部分服務業外商投資企業相關事項的通知) issued by MOFCOM on May 4, 2009, the approval sphere of the provincial commerce department has been expanded to cover the approval of foreign-invested enterprises within six industries if the enterprise falls under the appropriate class in the Catalogue of Foreign-Invested Industries Guidance (外商投資產業指導目錄) with a total investment capital below USD100 million, or if the enterprise falls under the restricted class in the Catalogue of Foreign-Invested Industries Guidance with a total investment capital below USD50 million. The six industries include, among others, foreign-invested enterprises that engage in the distribution of books, newspapers and magazines and sino-foreign cooperative joint venture enterprises that engage in the wholesale of audiovisual products.

Moreover, the foreign-invested commercial enterprise must meet the following conditions when opening retail stores:

- if the application is made simultaneously with the application for establishment of the commercial enterprise, the proposed store must conform with the applicable urban development plan and the commercial development plan of the city in which it is located; and

- if the application is made subsequent to the establishment of the enterprise, then in addition to meeting the above requirement, the enterprise must also have (a) undergone and passed the relevant annual inspections on time, and (b) received all of its registered capital from its investors.

Under the Commercial Enterprises Measures, the percentage of foreign investment in retailers in the PRC with more than 30 stores that are engaged in the sale of Specific Commodities (as defined therein, including books, newspapers, magazines, medicines, fertilizer, oil products, foodstuff, vegetable oil, cotton and sugar), provided that such commodities are of different brands and obtained from different suppliers, should not exceed 49%. As of February 5, 2009, this percentage was increased to 100% for foreign investment by Hong Kong and Macau service providers pursuant to the Supplementary Provisions (IV) on the Commercial Enterprises Measures (外商投資商業領域管理辦法補充規定(四)) promulgated by MOFCOM on February 5, 2009. As of December 31, 2012, we are not subject to the restriction under the Commercial Enterprises Measures since we have less than 30 stores. We will only be subject to such restriction in the future if we have more than 30 stores that are engaged in the sale of Specific Commodities.

PRICING LAW

Pursuant to the Pricing Law of the PRC (中華人民共和國價格法) ("Pricing Law") issued by the National People's Congress of the PRC on December 29, 1997, determination of prices must be in line with the law of value. Prices of most commodities and services shall be determined by the market, and prices of a small number of commodities and services can be government-guided prices or government-set prices. Market-regulated prices mean those prices determined independently by the providers of commodities and services ("Providers") and formed through market competition. Government-guided prices mean those prices determined by the Providers in accordance with the baseline prices, with a range of fluctuations set by competent price administrative departments or other relevant government departments based on the provisions of the Pricing Law. Government-set prices mean those prices determined by the competent price administrative departments or other relevant government departments in accordance with the Pricing Law.

The Pricing Law further provides that, when necessary, the government may enforce government-guided or government-set prices for the following commodities and services:

1. a small number of commodities vital for the economic development and people's life;

2. a small number of commodities that involve the use of rare resources;

3. commodities under natural monopoly management;

4. essential public utilities; and

5. essential public welfare services.

Pursuant to the Anti-unfair Competition Law of the PRC (中華人民共和國反不正當競爭法) issued by the Standing Committee of the National People's Congress of the PRC in 1993, operators are not allowed to sell merchandise at a price lower than the cost to edge out competitors. Below-cost pricing in the following situations, however, is not considered inappropriate competitive behaviour:

(i) sales of live and fresh commodities;

(ii) handling merchandise that will soon be expired or other overstocked merchandise;

(iii) seasonal price reduction; and

(iv) sales of merchandise at a reduced price because of settlement of indebtedness, change of business or close of business.

LICENSES

Apart from obtaining the necessary business licenses for operating department stores, operating a department retail business in PRC requires certain other licenses and permits, depending on the products sold. Therefore, not all of these license requirements may be applicable to us, for example:

(i) a "Hygiene License for Public Place" for hypermarkets as public places;

(ii) a "Cigarette Monopoly Permit" for the sale of cigarettes;

(iii) an "Alcohol Circulation Registration" for the sale of alcohol;

(iv) a "Publications Operating Permit" for the sale of books and newspapers;

(v) a "Medical Device Operation Enterprise Permit" for the sale of various types of medical apparatus;

(vi) an "Audiovisual Products Operation Permit" for the sale of audiovisual merchandise;

(vii) a "Food Circulation Permit" for food sales;

(viii) a "Motorway Transportation Operation Permit" for the delivery of goods purchased by customers;

(ix) a "Multi-regional Communication Value-added Service Operation Permit" for electronic business; and

(x) a "Personal Foreign Exchange Franchise Business Permit" for foreign exchange service.

According to the Measures of Administration of Cigarette Monopoly Permit (煙草專賣許可證管理辦法) issued by Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部) on May 26, 2016, which became effective on July 20, 2016, foreign-invested commercial enterprises are prohibited from engaging in the wholesale and retail of cigarettes. Thus, a foreign-invested enterprise may not be able to obtain the Cigarette Monopoly Permit.

According to the Food Safety Law of PRC (中華人民共和國食品安全法) issued by the Standing Committee of the National People's Congress on April 24, 2015 and implemented on October 1, 2015, the seller of food shall obtain the relevant permit.

A Food Circulation Permit for food sales is valid for a term of three years, and any renewal application should be submitted to the relevant authority within the 30 day period before it expires. A Cigarette Monopoly Permit is valid for a maximum of five years and should be renewed within the 30 day period before it expires. A Medical Device Operation Enterprise Permit is valid for a term of five years and should be renewed within the six month period before it expires. A Motorway Transportation Operation Permit is usually valid for a term of four years and should be renewed within the 30 day period before it expires.

A department store may also need to apply for other licenses, permits and approvals upon the request of the relevant governmental departments. For example, fire safety inspection of the building in which a department store is to be operated is required to take place before the commencement of business. Approval from the relevant fire department must also be obtained before the commencement of business. For foreign-owned commercial enterprises, not all of these licenses and permits can be obtained from relevant authorities due to industry restrictions.

PRE-PAID GIFT CARDS

The issue and sale of token cards or pre-paid gift cards for circulation in the market in place of Renminbi is prohibited under the PRC laws and regulations.

The relevant PRC laws and regulations prohibiting the issue and sale of token cards or pre-paid gift cards in the PRC are as follows: (i) the Emergency Notice on Prohibition of Issuing and Using Tokens (or Token Cards) (關於嚴禁發放使用各種代幣券(卡) 的緊急通知) ("Emergency Notice") jointly promulgated by the State Economic and Trade Commission (國家經濟貿易委員會), the Office of Correcting Industrial Improper Practice of the State Council (國務院糾正行業不正之風辦公室) and the PBOC on January 19, 2001; (ii) the Notice on Prohibiting the Distribution of Various Types of Tokens issued by the General Office of the State Council (國務院辦公廳關於禁止發放使用各種代幣購物券的通知), which came into effect on May 1, 1991; (iii) the Notice on Prohibiting the Printing, Offering, Purchasing and Using of Various Types of Tokens issued by the State Council (國務院關於禁止印製、發售、購買和使用各種代幣購物券的通知), which came into effect on April 4, 1993; (iv) the Notice on Strictly Controlling the Overly Rapid Growth of Consumption Expenditure and Strengthening the Cash Management issued by the State Council (Guo Fa Ming Dian [1994] No. 25) (國務院關於嚴格控制消費基金過快增長和加強現金管理的通知) (國發明電 [1994] 25 號), which came into effect on November 9, 1994; (v) the Emergency Notice on Further Strengthening the Cash Management and Controlling the Cash Issuance issued by the General Office of the State Council (Guo Ban Fa Ming Dian [1995] No. 1) (國務院辦公廳關於進一步加強現金管理控制現金投放的緊急通知) (國辦發明電[1995] 1 號), which came into effect on January 16, 1995; (vi) the Regulations of the People's Republic of China on Administration of Renminbi (中華人民共和國人民幣管理條例), which came into effect on May 1, 2000; (vii) The Law of the People's Bank of China of the People's Republic of China (中華人民共和國中國人民銀行法), which came into effect on March 18, 1995 and was subject to an amendment on December 27, 2003, which became effective on February 1, 2004; (viii) the Emergency Notice on Resolutely Stop the Tendency on Issuance and Use of Various Kinds of Token Cards issued by the Office of Correcting Industrial Improper Practice of the State Council (國務院糾正行業不正之風辦公室關於堅決刹住發放和使用各種代幣購物券之風的緊急通知) issued on December 11, 1998; (ix) the Administrative Measures for the Payment Services Provided by Non-Financial Institutions (非金融機構支付服務管理辦法) ("Payment Services Measures") promulgated by the PBOC on June 14, 2010, which came into effect on September 1, 2010; and (x) the Notice on Standardising the Administration for Commercial Pre-Paid Cards (關於規範商業預付卡管理的意見) jointly promulgated by PBOC, Ministry of Supervision of the People's Republic of China (中華人民共和國監察部), Ministry of Finance of the People's Republic of China (中華人民共和國財政部), MOFCOM, SAT, SAIC, and National Bureau of Corruption Prevention of the People's Republic of China (國家預防腐敗局) on May 23, 2011.

Pursuant to The Law of the People's Bank of China of The People's Republic of China (中華 人民共和國中國人民銀行法), the PBOC may impose a maximum fine of RMB200,000 on any entity for issuing the token cards or pre-paid gift cards in place of Renminbi.

The Payment Services Measures provide that non-financial institutions may issue token cards or pre-paid cards as an intermediary if they apply for and obtain the necessary licenses before September 1, 2011.

On May 23, 2011, the General Office of the State Council promulgated the Notice on standardising the administration for commercial pre-paid cards. This Notice was formulated by relevant authorities and demonstrates by context that the competent authorities acknowledge the positive effect of pre-paid cards and do not prohibit a commercial enterprise to issue pre-paid cards. This Notice also acknowledges that a commercial enterprise may issue single-functional pre-paid cards subject to certain requirements indicated in the Notice, including: (a) for those who purchase registered commercial pre-paid cards or non-registered commercial pre-paid cards exceeding RMB10,000 in one purchase, the issuer shall register their names; (b) in case an entity purchases a pre-paid card exceeding the amount of RMB5,000 in one purchase, or an individual purchases the pre-paid card exceeding the amount of RMB50,000 in one purchase, they shall remit through wire transfer other than cash; if wire transfer is carried out, the issuer shall register the name, number and amount received and remitted for every purchase of pre-paid cards; (c) par value of non-registered commercial pre-paid card must not exceed RMB1,000, while par value of registered commercial pre-paid cards must not exceed RMB5,000; (d) the issuer shall provide an invoice for sales of pre-paid cards according to relevant laws and regulations; and (e) there is no restriction on the term of validity of registered commercial pre-paid cards, while the term of validity of non-registered commercial pre-paid cards shall be no less than three years. The Notice also mentions that the Ministry of Commerce may further promulgate regulations on single-function pre-paid cards to regulate the activities concerning single-function pre-paid cards.

Pursuant to the Administrative Measures for Single-purpose Commercial Prepaid Cards (for Trial Implementation (單用途商業預付卡管理辦法(試行)) promulgated by the Ministry of Commerce on September 21, 2012 and taken into effect on November 1, 2012, if a legal enterprise engaging in the retail, accommodation, catering or resident service industries issues a single-purpose commercial prepaid card, it must file with the relevant commerce department within 30 days thereafter. If it fails to do so, the card issuer may be ordered to correct the non-compliance or be subject to a fine of an amount up to RMB30,000.

PRODUCT LIABILITY AND PROTECTION OF CONSUMERS

Product liability claims may arise if the products sold have any harmful effects on consumers. The injured party may file claims for damages or compensation. The PRC General Principles of the Civil Law (中華人民共和國民法通則), which became effective on January 1, 1987 and was amended on August 27, 2009, provides that manufacturers and sellers of defective products causing property damage or injury shall be liable. The PRC Tort Law (中華人民共和國侵權責任法) was enacted by the Standing Committee of the National People's Congress on December 26, 2009 and became effective on July 1, 2010. According to the Tort Law and the PRC Product Quality Law (中華人民共和國產品質量法), product liability claims may be brought against either the manufacturer or the seller of the defective products. If the defects were caused by the manufacturer of the products, the seller has the right to file a claim against the manufacturer after the seller has compensated the injured person. If the defects were the seller's fault, the manufacturer of the product has the right to file a claim against the seller after it has compensated the injured person.

The Tort Law does not provide a definition of the term "defective." Under Article 46 of the Product Quality Law, "defective products" means those products that may impose unreasonable danger and cause personal injury or property damage. In particular, if there are any applicable national standards or standards in the industry for the protection of health or personal and property safety, then a product that fails to comply with such standards would be considered "defective."

Manufacturers and sellers are obligated to take mitigating actions, such as warnings or recalls, for their products that are already in the market and found to be defective. Failure to take timely and effective mitigating actions may subject the manufacturers or the sellers to liability for damages to the extent of their respective fault. Manufacturers or sellers will be held liable for punitive damages if they have knowingly produced or sold defective products which have caused human injury or death. However, the Tort Law does not specify any criteria as to how the punitive damages are to be calculated.

The Law of the PRC on the Protection of the Rights and Interests of Consumers (中華人民共 和國消費者權益保護法) was promulgated on October 31, 1993 and amended on August 27, 2009 and October 25, 2013 to protect consumers' rights when they purchase or use goods and accept services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers. Business operators may have to assume criminal liability if their goods or services lead to death of customers.

ENVIRONMENTAL LAW

The PRC environmental laws and regulations include the PRC Environmental Protection Law (中華人民共和國環境保護法), the PRC Law on the Prevention and Control of Water Pollution (中 華人民共和國水污染防治法), the PRC Law on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), the PRC Law on the Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法) and the PRC Law on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法) (collectively, the "Environmental Laws"). The Environmental Laws govern a broad range of environmental matters, including air pollution, noise emissions, sewage and waste discharge.

According to the Environmental Laws, all business operations that may cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of gas waste, liquid and solid waste, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

According to the Environmental Laws, companies are also required to carry out an environment impact assessment before commencing construction of production facilities. They must install pollution treatment facilities that meet the relevant environmental standards to treat pollutants before discharge.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Directors are entrusted with the responsibility for the overall management of our Company. The Directors are assisted by a team of experienced and qualified executive officers, each responsible for different functions. The particulars of the Directors as of the date of this offering memorandum are set out below.

Name	Age	Position
Zhang Da Zhong (張大中)	68	Chairman and Non-executive Director
Zou Xiao Chun (鄒曉春)	47	Executive Director
Huang Xiu Hong (黃秀虹)	44	Non-executive Director
Yu Sing Wong (于星旺)	65	Non-executive Director
Lee Kong Wai, Conway (李港衛)	62	Independent Non-executive Director
Liu Hong Yu (劉紅宇)	53	Independent Non-executive Director
Wang Gao (王高)	51	Independent Non-executive Director

Chairman

Mr. Zhang Da Zhong (張大中), aged 68, has been the Chairman of the board and Non-executive Director of our Company since March 10, 2011. Currently, he also serves as the president of Beijing Dazhong Investment Co., Ltd., a company that engages primarily in private equity investment. 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 was a member of the 8th Chinese People's Political Consultative Conference of Beijing, a member of the standing committee for 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. He 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 is currently the deputy Chairman of the Beijing Commerce Federation (北京市商會).

Executive Director

Mr. Zou Xiao Chun (鄒曉春), aged 47, has been the Executive Director of our Company since December 17, 2010. He was the Vice President and the Senior Vice President of our Group from December 17, 2010 to December 31, 2013, mainly responsible for the Chinese legal and compliance matters and other deal-specific projects. He is also a director of various subsidiaries of our Company. 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. From 2001 to 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 our Company. From December 2008 to 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 from June 2011 to June 2014. Mr. Zou founded Jiandao Zhongchuang Investment Company Limited (簡道眾創投資有限公司) and was the chairman of the company in August 2014. He has been the chairman of UoneNet Technology (Beijing) Co., Ltd. (優萬科技(北京) 股份有限公司), a company listed on the New Third Board since January 2016. Mr. Zhou was granted the Chinese Lawyers Qualification Certificate (中國律師資格證書) in July 1991, the Chinese Tax Advisers Qualification Certificate (中國稅務師資格證書) in September 1995 and passed Certificate for the National Notary Public Qualification Examination (國家公證員資格考試合格證書) in December 1995. He is also a qualified industrial economist. Mr. Zou has been a practicing lawyer for over 20 years and has over 10 years experience in practicing legal areas related to capital markets in the China. Mr. Zou received his bachelor's degree in law form Nanchang University (formerly known as Jiangxi University).

Non-executive Directors

Ms. Huang Xiu Hong (黃秀虹), aged 44, has been the Non-executive Director of our Company since June 24, 2015. She is also directors of certain subsidiaries of our company. Ms. Huang has been working at GOME Appliance Company Limited (國美電器有限公司) ("GOME Appliance") since 1991 and was appointed as the GOME Appliance's general manager in Eastern China Region since 2005. She has been the president of both the Non-listed GOME Group and Pengrun Holdings Limited (鵬潤控股有限公司) since 2009. From March 2014 to May 2014, she was the acting chairman of the board of Beijing Centergate Technologies (Holding) Co., Ltd., a company listed on Shenzhen Stock Exchange. Ms. Huang was honored the "Top Ten Outstanding Youth in Retail Industry of Shanghai" in 2007, a torchbearer of the Beijing Olympic Games in 2008 and received the nomination title of "Outstanding Business Woman of China" conferred by All-China Women's Federation together with China General Chamber of Commerce in 2009. she was consecutively awarded "The Most Influential Business Woman in China" from 2012 to 2015, Besides, Ms. Huang was recognized as "The Significant Contributor in Building National Corporation Culture" in 2012, "Person of Asia Brand of 2013", etc. Currently, Ms. Huang serves as the deputy chairman of both China Enterprise Confederation and China General Chamber of Commerce as well as a council member of Beijing Federation of Industry & Commerce. Ms. Huang received her MBA degree from Helsinki School of Economics in 2005 and she is now pursing further education in financial EMBA in Tsinghua University PBC School of Finance. She is a sister of Mr. Wong Kwong Yu, the controlling shareholder of our Company.

Mr. Yu Sing Wong (于星旺), aged 65, has been the Non-executive Director of our Company since June 24, 2015. Mr. Yu has been the president of No. 9 Real Estate Company Limited (玖號置業有限公司) under GOME Holding Group (國美控股集團) since 2013, primarily responsible for the development and construction of No. 9 Shopping Plaza (玖號購物廣場) in Xiangjiang, Changsha, Hunan. Prior to joining our Company, from 2003 to 2012, Mr. Yu served as the president of Beijing Xinhengji Investment and Management Group (北京新恒基投資管理集團), responsible for the development and construction of the Xinhengji First

City Project (新恒基第一城項目) in Shenyang. From 2000 to 2002, he served as the general manager of Beijing Pengrun Real Estate Development Company Limited (北京鵬潤房地產開發有限公司), responsible for the development and construction of the Pengrun Garden Project (鵬潤家園項目). From 1992 to 2000, he served as the vice president of Xinhengji Real Estate Development Company Limited (新恒基房地產開發有限公司), responsible for the development and construction of various projects, such as Xinhengji International Building (新恒基國際大廈), Pengrun Building (鵬潤大廈) and Jing An Centre (靜安中心). Before that, Mr. Yu was an assistant manager of a materials company in Luohu, Shenzhen from 1984 to 1991 and was a cadre of the office of machine tool station of the Ministry of First Machinery Industry (第一機械工業部機床總站) from 1973 to 1984.

Independent Non-executive Directors

Mr. LEE Kong Wai, Conway (李港衛), aged 62, has been the Independent Non-executive Director of our Company since March 10, 2011. Mr. Lee has also 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. Besides, Mr. Lee was a non-executive director and the deputy chairman of Merry Garden Holdings Limited, a company listed on the Hong Kong Stock Exchange from July 2014 to September 2015, 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 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, the Macau Society of Registered Accountants and has been appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China since 2007. He received his postgraduate diploma in business from Curtin University of Technology and bachelor's degree in arts from Kingston University (formerly known as the Kingston Polytechnic).

Ms. Liu Hong Yu (劉紅宇), aged 53, has been the Independent Non-executive Director of our Company since June 10, 2013. Currently, she also serves as 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 director of Lanpec Technologies Limited, a company listed on Shanghai Stock Exchange. Prior to joining our Company, from June 2009 to June 2012, she was an independent director of Chongqing Three Gorges Water Conservancy and Electric Power Co., Ltd and from April 2005 to June 2011, an independent director of Founder Technology Group Company Limited, both companies are listed on Shanghai Stock Exchange. Besides, Ms. Liu is also the founding partner of Jincheng Tongda and Neal. Prior to that, Ms. Liu was the managing partner of Beijing Tongda Law Offices from April 1993 to April 2004, the legal adviser to Agricultural Bank of China (Beijing Branch) form May 1988 to April 1993 and a cadre of the People's Bank of China (Sichuan Province) from July 1985 to May 1988. 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, a deputy to the 14th Beijing Municipal People's Congress and an executive member of the executive committee to the 11th China Feminine 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. She received her postgraduate degree in Economic Law from the Graduate School of Chinese Academy of Social Sciences in 1998, in Business Administration from Guanghua School of Business Management in Peking University in 2003 and bachelor's degree in Law from Southwest University of Political Science and Law in 1985. She is a Chinese practicing lawyer and qualified as a Chinese economist.

Mr. Wang Gao (王高), aged 51, has been the Independent Non-executive Director of our Company since June 24, 2015. Mr. Wang is also an independent director of Anhui Gujing Distillery Company Limited, a company listed on Shenzhen Stock Exchange since June 2014, and was appointed as a professor of marketing and the associate dean (Trainings for Senior Managers) in China Europe International Business School (中歐國際工商學院) and the joint director of The Research Center of Globalization of China Enterprises (中國企業全球化研究中心) since 2009. Prior to joining our Company, from 2002 to 2008, Mr. Wang served as the associate professor and the deputy of the Marketing Department under School of Economics and Management of Tsinghua University. From 2001 to 2002, he served as the manager of Strategy and Analysis Department of Minute Maid Branch (美之源分公司) under the Coca-Cola Company in Houston of the United States. From 1998 to 2001, he served as the senior consultant of The Information Resources Limited of the United States (美國信息資源有限公司) in Chicago. Mr. Wang is an independent director of Anhui Gujing Distillery Company Limited (a company listed on the Shenzhen Stock Exchange) since 2014. He received his doctor's degree in Sociology and master's degree in Social Science in Yale University in 1998 and 1994, respectively, and his bachelor's degree in Demography in Renmin University of China in 1988.

SENIOR MANAGEMENT

Mr. Wang Jun Zhou (王俊洲), aged 55, has been the President of our Group since June 28, 2010, and is responsible for the overall management of daily operations, including the formulation of our medium and long-term strategic plans and annual budgets as well as standardization of various systems, processes and authorizations for our Group. He also assists in providing guidance and monitoring to the daily operations in each major region and each division of our Group as well as the appraisal and review for business management teams at all levels. Mr. Wang is also a director of various subsidiaries of our Company. Since joining our group in 2001, he assumed various positions within our group including general manager of the operations centre, general manager of the Southern China Region and general manager of the strategic and cooperation centre of our Group. He also served as the executive vice president of our Group from November 2006 to June 2010, the executive director from December 2008 to June 2011, before he was promoted to his current position. 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. In July 2015, Mr. Wang was elected as the 10th Retail Person of the Year for 2014-2015, an award recognizing his contribution in leading the transformation and innovation of the Company for outstanding business results and substantial progress in 2014. In October 2015, President Mr. Wang was awarded the title of "Outstanding Person on Home Appliance for the Thirty Years in China" (中國家電30 年功勳人物獎) by China Household Electrical Appliances Association. Mr. Wang has over 10 years of experience in the sale and management of electrical appliances.

Mr. Fang Wei (方巍), aged 45, has been re-designated as the Chief Financial Officer of our Group since September 2011, as well as the CEO of our Group's online business companies since November 2016, and is responsible for the overall planning and implementation of the Group's internal budget as well as the accounting and auditing system. He also participates in major decision making in relation to the investment, financing and operations of our group. Mr. Fang is also a fellow member of the Chartered Global Management Accountant (CGMA) association and a fellow member of Institute of Public Accountants (FIPA) of Australia. Before the re-designation, Mr. Fang had been the Acting Chief Financial Officer of our Group since November 2008. He is a director of certain subsidiaries of our company. Currently, he is also the chairman of the supervisory committee of Sanlian Commercial Co., Ltd, a company listed on the Shanghai Stock Exchange. Since joining our group in January 2005, Mr. Fang held positions as assistant director and the director of the finance centre and member of the execution committee of our Group, and was granted the Special Contribution Award for Year 2011 by our 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 and Year 2014 the Best Investor Relations-Mid Cap Award by Hong Kong Investor Relations Association, while he was elected as China's top 10 outstanding CFO by CFO in 2014. In November 2015, Mr. Fang was elected as "2015 Finance Leader" by CGMA. In December 2015, Mr. Fang was elected as "2015 Outstanding Global Leader in China" by China's CFO Development Centre. In 2016, Mr. Fang and his team were awarded the Best Investor Relations Management at the China Golden Hong Kong Securities Award, and the Best Practice of Shared Service Center of the Year by CGMA. Mr. Fang has extensive and solid experience in finance management, internal control, budget control and capital management. He received his master's degree in management and bachelor's degree in accounting from Central University of Finance and Economics. He is a qualified senior accountant and senior economist in China.

Ms. Wei Qiu Li (魏秋立), aged 49, has been re-designated as the Senior Vice President of our Group since March 2012, and is mainly responsible for the medium-to long term strategic planning, preparation of annual budget, standardization of various policies, systems and authorizations, organizational planning and human resources training of our Group. Before the re-designation, Ms. Wei had been the vice president of our Group since November 2006 and was an executive director of the Company from January 2009 to June 2011. She is also a director of various subsidiaries of our Company. Currently, she also serves as a director of the board of Sanlian Commercial Co., Ltd., a company listed on the Shanghai Stock Exchange. Since joining our Group in 2000, she has held various 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 our Group. From January 11, 2007 to January 15, 2009, 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. Ms. Wei has over 10 years experience in human resources and administrative management. She received her EMBA degree from China Europe International Business School in 2013.

Mr. Li Jun Tao (李俊濤), aged 51, has been appointed as CEO of GOME-on-line since June 2015, and is responsible for the management of GOME-on-line and Smart Home/home appliance manufacturing segment, and is one of the important decision makers in relation to development strategies and business operations of our Group for the business operation and management in the areas of strategic planning, business development and team building. Before the appointment, Mr. Li was the Senior Vice President of the Group since March 2012. He is also a director of various subsidiaries of our Company and a member of the decision-making committee. Since joining our Group in 1988, he has assumed senior management roles in areas such as municipal, provincial, business and operational sectors of our Group. In November 2015, Mr. Li was awarded Top Ten Marketing Persons (十大營銷人物) organized by Southern Metropolitan News. He received his EMBA degree from China Europe International Business School.

Mr. He Yang Qing (何陽青), aged 54, has been appointed as the Chief Operating Officer of GOME-on-line since June 2015, and is responsible for the operation and management of the operating system of GOME-on-line. Before the appointment, Mr. He had been the Senior Vice President of our Group since 2012, mainly responsible for the operation and management of the operation system (such as the First-tier Market operation center, Second-tier Market operation center, chain development center, customer service center, information center, etc.) as well as the brand management center of our Group. Currently, he also serves as the director and the chairman of the board of Sanlian Commercial Co., Ltd., a company listed on the Shanghai Stock Exchange. Since joining our group in 2003, Mr. He has held positions as a member of the decision-making committee and assistant director of the sales center of our Group. Mr. He was named as Top Ten Persons of Brand Building in China for Year 2005 (2005年中國品牌建設十大人物) and Ten Outstanding Brand Managers in China for Year 2007 (2007年中國十大傑出品牌經理人), and was awarded Advertisers' Great Wall Award-Meritorious Figure Award for Year 2011 (廣告主長城獎 – 2011 年度人物功勛獎). Mr. He has over 20 years of extensive and solid experience in the industries of retail sale and manufacture of home electrical appliances.

Mr. Guo Jun (郭軍), aged 45, has been re-designated as the senior vice president of our Group since January 2016, and is mainly responsible for the overall operation and management of the operating system of our Group and is one of the important decision makers in relation to business operations and development strategies of our Group. Before the re-designation, Mr. Guo had been the vice president of our Group since April 2013 and received the 2013 Outstanding Vice President Award. Since joining the Group in 2005, Mr. Guo has been responsible for the establishment of various branches across the nation and has previously held positions as the acting general manager of Shenzhen GOME, acting general manager of the Southern China Region, director of sales and procurement at the headquarter of China Paradise, general manager of Fujian Region and director of the home appliance business center of the headquarter. The team led by Mr. Guo received the 2016 Outstanding Contribution Award from our Group. He is familiar with the market environments of various regions and has repeatedly reached new heights in sales records.

Mr. Lv Yi Fan (呂意凡), aged 56, has been re-designated as the vice president of our Group since March 2012, and is responsible for maintaining and upgrading our information technology system. Mr. Lv joined our Group in 2007, and held the position of director of information technology center. The team and projects led by Mr. Lv received numerous awards, including the China Chamber of Commerce Science and Technology Award – Grand Prize for 2012 (2012年度中國商業聯合會科學技術特等獎) for the ERP project 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) with him being a core ERP project team leading member of GOME. Under the leadership of Mr. Lv, the information team of our Group continued to improve the optimization system between 2013 and 2015. In 2016, the Research and Development Center (Chengdu) and Chengdu GOME Big Data Technology Co., Ltd. (成都國美大數據科技有限公司) was established and put into operation, establishing our capabilities of independent research and providing external product services. In addition, the team led by Mr. Lv received the Innovation Award and the 2016 Outstanding Contribution Award from our Group. In 2016, our Group obtained 136 software copyrights under Mr. Lv's supervision. Mr. Lv graduated from the Business Administration Faculty of Capital University of Economics and Business (首都經濟貿易大學). He received a master degree in management and the technical title of senior engineer.

Mr. Ma Hai Lin (馬海林), aged 48, has been re-designated as the vice president of GOME Appliance since the end of 2013, and is mainly responsible for the operation and management of the operation system, including the First-tier Market store operation center, chain development center, customer service center, information center, design and renovation department and micro shops department of GOME Appliance. Since joining our Group in 2007, Mr. Ma has held various positions working as the operating director of Northern China Region, director of store operating center of our Group and general manager of Dalian branch of GOME Appliance, before he was re-designated to the current position. Mr. Ma has over 20 years experience in China and foreign retail industry, and possesses a keen observation and prospective ability over the retail industry. He received his bachelor's degree from Beijing Normal University in 1991.

BOARD COMMITTEES

We have established an Audit Committee, a Remuneration Committee, a Nomination Committee and an Independent Committee. Each of the Board Committees has specific written terms of reference which deal clearly with their authority and duties.

Audit Committee

The Audit Committee is composed of Mr. Lee Kong Wai, Conway, Ms. Liu Hong Yu and Mr. Yu Sing Wong. The chairman of the Audit Committee is Mr. Lee Kong Wai, Conway.

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

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 our Company and to review significant financial reporting judgments contained in them;

5. to review to our 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 our 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 meets at least twice each year.

Remuneration Committee

The Remuneration Committee is comprised of Mr. Lee Kong Wai, Conway, Ms. Liu Hong Yu, Mr. Zou Xiao Chun and Ms. Huang Xiu Hong. The chairman of the Remuneration Committee is Mr. Lee Kong Wai, Conway.

The Remuneration Committee is primarily responsible for, among other matters, the following duties:

1. to make recommendations to the Board on our 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 our 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 meets at least once each year.

Nomination Committee

The Nomination Committee is comprised of Mr. Wang Gao, Mr. Zhang Da Zhong, Mr. Lee Kong Wai, Conway and Ms. Liu Hong Yu. The chairman of the Nomination Committee is Mr. Wang Gao.

The Nomination Committee is primarily responsible for, among other matters, the following duties:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations on any proposed changes to the Board to complement our 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 reappointment of Directors and succession planning for Directors and, in particular, the chairman of the Board and the President of our Company.

The Nomination Committee meets at least once each year.

Independent Committee

The Independent Committee is comprised of Mr. Zhang Da Zhong, Mr. Lee Kong Wai, Conway, Ms. Liu Hong Yu and Mr. Wang Gao. The chairman of the Independent Committee is Mr. Zhang Da Zhong.

The Independent Committee is primarily responsible for, among other matters, the following duties:

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

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

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

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

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

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

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

PRINCIPAL SHAREHOLDERS

As of May 31, 2017, the following persons had interests or short positions in the Shares or underlying Shares which were recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance[(1)]:

Name of shareholder	Nature	Number of ordinary shares held	Percentage of shareholding in our Company
Mr. Wong[(2)]	Interest in controlled corporation	10,835,703,338	50.03%
Ms. Du Juan[(3)]	Interest in controlled corporation	10,835,703,338	50.03%
Ever Ocean Investments Limited[(4)] . . .	Interest in controlled corporation	5,500,000,000	25.40%
GOME Holdings Limited[(4)]	Interest in controlled corporation	5,500,000,000	25.40%
Power Charm Holdings Limited[(4)]	Interest in controlled corporation	5,500,000,000	25.40%
GOME Home Appliances (H.K.) Limited[(4)].	Interest in controlled corporation	5,500,000,000	25.40%
GOME Management Limited[(4)]	Beneficial owner	5,500,000,000	25.40%
Shinning Crown Holdings Inc.[(5)]	Beneficial owner	4,454,979,938	20.57%

Notes:

(1) From May 31, 2017 until the date of this offering memorandum, there is no material change in the interests or short positions in the Shares or underlying Shares which were recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance.

(2) Of these 10,835,703,338 Shares, 5,500,000,000 Shares were held by GOME Management Limited, 4,454,979,938 Shares were held by Shinning Crown Holdings Inc. and 634,016,736 Shares were held by Shine Group Limited (all the above 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). Excluded from the above table are 2,500,000,000 warrants hold by GOME Management Limited which are convertible into 2,500,000,000 Shares of our Company at the initial exercise price of HK$2.15 per Share.

(3) 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.

(4) All these companies are 100% beneficially owned by Mr. Wong. The Shares held by these companies refer to the same parcel of Shares and exclude the 2,500,000,000 warrants held by GOME Management Limited which are convertible into 2,500,000,000 Shares of our Company at the initial exercise price of HK$2.15 per Share prior to the second anniversary of March 31, 2016.

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

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between us or our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders. For the recent connected transaction, see "Business – Recent Development – A connected transaction with Parent Group companies."

The table below sets forth certain material transactions between us and our related parties during the three years ended December 31, 2014, 2015 and 2016:

	For the year ended December 31,			
	2014	2015	2016	
	RMB	RMB	RMB	US$
				(Unaudited)
	(in thousands)			
Sales to the GOME Retail[(1)]	1,523,642	4,610,794	1,535,650	221,180
Purchases from the GOME Retail[(1)]	809,386	1,023,620	426,128	61,375
Provision of management and purchasing services to the GOME Retail[(2)]	250,000	250,000	31,656	4,559
Rental expenses and other expenses to GOME Property and Beijing GOME[(3)]	99,992	132,760	142,898	20,582
Service fee to GOME Ruidong and Anxun Logistics (defined below)[(4)]	9,025	6,737	576,654	83,055
Warehouse service income from Anxun Logistics	–	–	21,591	3,110
Construction expenses to GOME Property	–	–	10,377	1,495
Commission income from GOME Xinda	–	–	2,033	293
Service income from GOME Financial	–	–	1,192	172

Notes:

(1) The sales and purchase transactions and the joint purchase transactions entered into between our Group and GOME Retail in respect of the electrical appliances and consumer electronic products were conducted based on the actual purchase costs from the Group's third party suppliers. The related party transactions represented the transactions between both parties up to March 31, 2016 as GOME Retail became a subsidiary of the Company since April 1, 2016. The related transactions have been eliminated within our Group after the consolidation of Artway since April 1, 2016.

The original master purchase and master supply agreements expired on December 31, 2015. The transitional agreements were entered into on December 30, 2015 as transitional arrangements for our Group to continue its existing operations pending approval by the independent shareholders of the Company, among other things, the acquisition of Artway. The acquisition was then approved by the independent shareholders of the Company on January 22, 2016. As the transitional agreements would expire on February 29, 2016, on January 25, 2016, our Group entered into (1) the master merchandise purchase agreement for the supply of general merchandise (including electrical appliances and consumer electronic products) by Beijing GOME Ruidong e-Commerce Co., Ltd. (北京國美銳動電子商務有限公

司) ("GOME Ruidong"), which is beneficially owned by Mr. Wong, and GOME Retail to the Company's subsidiaries (including GOME Appliance and GOME-on-line) for a period of three years from January 1, 2016 to December 31, 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended December 31, 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion, respectively, and (2) the master merchandise supply agreement for the supply of general merchandise (including electrical appliances and consumer electronic products) by GOME Appliance to GOME Ruidong, GOME Retail and GOME-on-line for a period of three years from January 1, 2016 to December 31, 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended December 31, 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion (including the transactions between GOME Appliance and GOME-on-line, which is regarded as a connected person under the Listing Rules), respectively. Sales and purchases represented amounts of the transactions between the Group and GOME Retail for the period from January 1, 2016 to March 31, 2016.

The transactions constitute continuing connected transactions under the Listing Rules.

(2) Our Group provides management services to GOME Retail in respect of the retailing of electrical appliances and consumer electronic products. In addition, our Group negotiates with various suppliers for both our Group and GOME Retail on a centralised basis.

The management agreement was terminated after the acquisition of Artway.

The purchasing service agreement was not renewed upon its expiry on December 31, 2015.

The transactions constitute continuing connected transactions under the Listing Rules.

(3) On December 30, 2015, our Group renewed the lease agreements with GOME Property and Beijing GOME with respect to the continuous use of the properties. During the year, the rental expenses incurred by the Group payable to GOME Property and Beijing GOME amounted to RMB127,130,000 (2015: RMB116,992,000) and RMB15,768,000 (2015: RMB15,768,000), respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

(4) On December 30, 2015, our Group entered into (1) logistics services agreements pursuant to which GOME Ruidong and 安迅物流有限公司 ("Anxun Logistics Co., Ltd." or "Anxun Logistics"), which is beneficially owned by Mr. Wong, would provide the logistics services to GOME Appliance and GOME-on-line for a period of three years from January 1, 2016 to December 31, 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended December 31, 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively, and (2) the after-sales services agreement pursuant to which GOME Ruidong would provide the after-sales services to GOME-on-line for a period of three years from January 1, 2016 to December 31, 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended December 31, 2016, 2017 and 2018 not exceeding RMB150 million, RMB150 million and RMB150 million, respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness. As of December 31, 2016, our total interest-bearing bank loans and our Corporate Bonds payables in the aggregate amounted to RMB10,839.7 million (US$1,561.2 million). We also issued the Original Bonds in March 2017. We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

LOAN AGREEMENTS IN THE PRC

As of the date of this offering memorandum, we do not have any outstanding PRC interest-bearing bank loans.

CORPORATE BONDS

Public Corporate Bonds

GOME Appliance Company Limited ("GOME Appliance"), our wholly-owned subsidiary in the PRC, issued a series of domestic public corporate bonds which are listed and traded on the Shanghai Stock Exchange in an aggregate principal amount of RMB5.0 billion (US$0.8 billion) to qualified investors in tranches (the "Public Corporate Bonds"). The first tranche was issued on January 11, 2016 in an amount of RMB3.0 billion (US$0.4 billion) with a six-year term at a coupon rate of 4.00% per annum. The second tranche was issued on February 1, 2016 in an amount of RMB0.3 billion (US$43.2 million) with a six-year term at a coupon rate of 4.00% per annum. The third tranche was issued on May 12, 2016 in an amount of RMB1.7 billion (US$244.9 million) with a six-year term at a coupon rate of 4.50% per annum. At the end of third year of each tranche, GOME Appliance has a right to adjust the coupon rate and investors have options to require GOME Appliance to repurchase the bonds. As of the date of this offering memorandum, the entire principal amount of the Public Corporate Bonds is outstanding.

Non-Public Corporate Bonds

On October 20, 2016, GOME Appliance was granted by the Shanghai Stock Exchange a right to issue domestic non-public corporate bonds up to RMB7.0 billion (US$1.0 billion). The domestic non-public corporate bonds will be listed and traded on the Shanghai Stock Exchange to qualified investors.

On December 13, 2016, GOME Appliance issued domestic non-public corporate bonds which are listed and traded on the Shanghai Stock Exchange in an aggregate principal amount of RMB4.0 billion (US$0.6 billion) at a coupon rate of 5.67% per annum to qualified investors (the "Non-Public Corporate Bond"). At the end of second and fourth year of the term, GOME Appliance has a right to adjust the coupon rate and investors have options to require GOME Appliance to repurchase the bonds. As of the date of this offering memorandum, the entire principal amount of the Non-Public Corporate Bonds is outstanding.

OFFSHORE FINANCING AGREEMENTS

Wing Lung Bank Facility

On April 11, 2016, we, as borrower, entered into a facility letter with Wing Lung Bank Limited, as lender. The facility is a U.S. dollar-denominated term loan facility with an aggregate principal amount of up to US$50.0 million (the "Wing Lung Bank Facility"). As of the date of this offering memorandum, we have drawn down US$46.3 million under this facility.

The Wing Lung Bank Facility has a term of 24 months from the drawdown date.

Guarantee and Security

The Wing Lung Bank Facility is secured by a standby letter of credit issued by China Merchants Bank Co., Ltd., Beijing Chaoyang Park Branch, for an amount of US$46.3 million, which is secured by certain properties/assets of GOME Appliance.

Interest

The Wing Lung Bank Facility bears interest at the rate of 0.9% plus three months' LIBOR per annum, or, if no such LIBOR is available, 0.9% plus the lender's cost of funding as determined by the lender per annum.

Default Interest

Any amount that is due and payable but remain unpaid will bear interest at the rate of 2% plus the interest set forth above per annum.

China Merchants Bank Facility

A credit line of US$250.0 million

On May 24, 2016, we, as borrower, entered into a facility letter with China Merchants Bank. The facility is a U.S. dollar-denominated credit line with an aggregate principal amount of up to US$250.0 million (the "China Merchants Bank Facility"). As of the date of this offering memorandum, we have drawn down US$106.2 million under the facility.

The China Merchants Bank Facility has a term of 24 months from May 25, 2016.

Guarantee and Security

The China Merchants Bank Facility is secured by a standby letter of credit issued by China Merchants Bank Co., Ltd., Beijing Chaoyang Park Branch, for an amount of US$106.2 million, which is secured by certain properties/assets of GOME Appliance.

Interest

The China Merchants Bank Facility bears interest at the rate of 0.75% plus three months' LIBOR per annum.

Default Interest

Any amount that is due and payable but remain unpaid will bear interest at the rate of 2% plus the interest set forth above per annum.

October 2016 BOC (Macau) Facilities

On October 17, 2016, we, as borrower, entered into two loan agreements with Bank of China, Macau Branch, as lender (the "October 2016 BOC (Macau) Facilities"). The October 2016 BOC (Macau) Facilities are U.S. dollar-denominated term loan facilities with an aggregate principal amount of US$60.0 million and US$45.0 million, respectively. On January 16, 2017, we entered into a supplemental agreement with the lender to each of the October 2016 BOC (Macau) Facilities, according to which, the U.S. dollar-denominated term loan facilities are transferred to Euro-denominated in the equivalent amount. As of the date of this offering memorandum, we have drawn down EUR95.3 million under the October 2016 BOC (Macau) Facilities.

The October 2016 BOC (Macau) Facilities have a term of 24 months and 12 months, respectively, from the date of the agreement.

Guarantee and Security

The October 2016 BOC (Macau) Facilities are secured by standby letters of credit issued by Bank of China Limited, Tianjin Branch and Ningbo Branch, for an amount of US$60.0 million and US$45.0 million, respectively, which are secured by certain properties/assets of GOME Appliance.

Interest

The October 2016 BOC (Macau) Facilities bear interest at the rate of three months' EURIBOR plus 0.9% per annum (but not less than 0.9% per annum) and three months' EURIBOR plus 0.7% per annum (but not less than 0.7% per annum), respectively.

Default Interest

Any amount that is due and payable but remain unpaid will bear interest at the rate of 3% plus the interest set forth above per annum.

China Everbright Bank Loan

On February 23, 2017, we, as borrower, entered into a loan facility agreement with China Everbright Bank Hong Kong Branch, as lender (the "China Everbright Bank Loan"). The China Everbright Bank Loan is a Euro denominated transferrable revolving loan facility with an aggregate principal amount of EUR300.0 million. As of the date of this offering memorandum, we have drawn down EUR258.9 million under this facility.

The China Everbright Bank Loan has a term of 12 months, from the drawdown date.

Guarantee and Security

The China Everbright Bank Loan is secured by standby letters of credit issued by Hengfeng Bank Beijing Branch, for an amount of RMB2.0 billion, which are secured by certain properties/assets of GOME Appliance.

Interest

The China Everbright Bank Loan bears interest at the rate of 0.70% per annum over EURIBOR for the duration of one year, or 0.70% per annum over the cost of funds of the lender, as conclusively determined by the lender.

Default Interest

Any amount that is due and payable but remain unpaid will bear interest at the rate of 3.0% plus the interest set forth above per annum.

ORIGINAL BONDS

We issued 5.0% bonds due 2020 in the aggregate principal amount of US$400,000,000 on March 10, 2017 (the "Original Bonds"). As of the date of this offering memorandum, a total of US$400,000,000 principal amount of the Original Bonds remains outstanding. For the description of the terms of the Original Bonds, see "Terms and Conditions of the Bonds" of the offering memorandum.

TERMS AND CONDITIONS OF THE BONDS

The following are the terms and conditions of the Bonds in the form in which they (subject to amendments and completion and other than the text in italics) will be scheduled to the Trust Deed and endorsed on the definitive Certificates (if issued) and referred to in the global certificate.

*For the purposes of these terms and conditions of the Bonds, the term "**New Bonds**" refers to the U.S.$100,000,000 5.0 per cent. bonds due 2020 issued by GOME Electrical Appliances Holding Limited (國美電器控股有限公司) (the "**Issuer**") pursuant to this Offering Circular. The New Bonds issued pursuant to this Offering Circular are further issuances of and will be fully consolidated and form a single series with the U.S.$400,000,000 5.0 per cent. bonds due 2020 issued on March 10, 2017 (the "**Original Bonds**"); the term "**Issue Date**" as used in Condition 4(b) shall be deemed to mean June 23, 2017 with respect to the New Bonds; the US$ amount referred to in the definition of "**Specified Balance**" in Condition 4(f) with respect to the New Bonds shall be U.S.$5,000,000 on the Issue Date of the New Bonds.* For the avoidance of doubt, references to "***Bonds***" *shall mean the New Bonds and the Original Bonds, which expression, unless the context requires otherwise, includes any further securities issued pursuant to Condition 15 and to be consolidated and forming a single series therewith.*

*In connection with the issuance of the New Bonds, the Issuer and Bank of Communications Trustee Limited (the "**Trustee**") will enter into a supplemental trust deed dated June 23, 2017 (the "**Supplemental Trust Deed**"). For the avoidance of doubt, references to the "**Trust Deed**" shall mean the trust deed dated March 10, 2017 among the Issuer and the Trustee as supplemented by the Supplemental Trust Deed, and as may be further amended or supplemented from time to time.*

The U.S.$400,000,000 5.0 per cent. bonds due 2020 (the "**Bonds**", which expression, unless the context requires otherwise, includes any further securities issued pursuant to Condition 15 and to be consolidated and forming a single series therewith) of GOME Electrical Appliances Holding Limited (國美電器控股有限公司) (the "**Issuer**") are constituted by a trust deed (as amended or supplemented from time to time, the "**Trust Deed**") dated on or about March 10, 2017 (the "**Issue Date**") made between the Issuer, and Bank of Communications Trustee Limited (the "**Trustee**", which expression shall include its successor(s)) as trustee for the holders of the Bonds. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed.

Copies of the Trust Deed and the agency agreement dated on or about March 10, 2017 (as amended or supplemented from time to time, the "**Agency Agreement**") made between the Issuer, the Trustee, Bank of Communications Co., Ltd. Hong Kong Branch as principal paying agent (the "**Principal Paying Agent**"), Bank of Communications Co., Ltd. Hong Kong Branch as registrar (the "**Registrar**") and as transfer agent (the "**Transfer Agent**") and any other Agents appointed thereunder are available for inspection during normal business hours upon prior written notice and proof of holding by the Holders (as defined below) at the specified office for the time being of the Trustee, presently at 1/F, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong, and at the specified office of the Principal Paying Agent. References herein to "**Paying Agents**" includes the Principal Paying Agent, and "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent, the Account Bank (as defined below) and any other agent or agents appointed from time to time with respect to the Bonds. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions of the Agency Agreement and Account Bank Agreement applicable to them.

The Bonds also have the benefit of an account bank agreement dated March 10, 2017 (as amended, restated, replaced or supplemented from time to time, the "**Account Bank Agreement**") between the Issuer, the Trustee and the account bank named therein (the "**Account Bank**").

All capitalised terms that are not defined in these terms and conditions (these "**Conditions**") will have the meanings given to them in the Trust Deed.

1 Form, Specified Denomination and Title

The Bonds are issued in the specified denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Bonds are represented by registered certificates (the "**Certificates**") and, save as provided in Condition 3(b), each Certificate shall represent the entire holding of Bonds by the same holder.

Title to the Bonds shall pass by transfer and registration in the Register as described in Condition 3. The holder of any Bond shall (except as otherwise required by law) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, "**Bondholder**" or "**Holder**" means the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first name thereof).

Upon issue, the Bonds will be represented by the Global Certificate registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV and Clearstream Banking S.A. The Global Certificate will be registered in the name of a common nominee for, and held by or to the order of a depositary common to, Euroclear Bank SA/NV and Clearstream Banking S.A. The Conditions are modified by certain provisions contained in the Global Certificate while any of the Bonds are represented by the Global Certificate. See "Summary of Provisions relating to the Bonds in Global Form".

2 Status

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all its other present and future direct, unconditional, unsecured and unsubordinated obligations.

3 Transfers of Bonds and Issue of Certificates

(a) Register

The Issuer will cause the register (the "**Register**") to be kept at the specified office of the Registrar and in accordance with the terms of the Agency Agreement, on which shall be entered the names and addresses of the Holders and the particulars of the Bonds held by them and of all transfers of the Bonds. Each Holder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.

(b) Transfer

Subject to the Agency Agreement and Conditions 3(e) and 3(f) herein, a Bond may be transferred by depositing the Certificate issued in respect of that Bond, with the form of transfer on the back of the Certificate duly completed and signed by the Holder or his attorney duly authorised in writing, at the specified office of the Registrar or any Transfer Agent.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(c) Delivery of New Certificates

Each new Certificate to be issued upon transfer of Bonds pursuant to Condition 3(b) shall be made available for delivery within five business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of any Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate shall have been made or, at the option of the Holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the Holder entitled to the new Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 3(c) and in Condition 3(e), "**business day**" means a day, other than a Saturday, Sunday or public holiday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) Formalities Free of Charge

Registration of transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer or any Agent but upon (i) payment (or the giving of such indemnity and/or security and/or pre-funding as the Issuer or any Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer; (ii) the Registrar being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the relevant Agent being satisfied that the regulations concerning transfer of Bonds have been complied with.

(e) Closed Periods

No holder may require the transfer of a Bond to be registered (i) during the period of 14 days ending on (but excluding) the due date for any payment of principal (or premium) in respect of that Bond; or (ii) during the period of 14 days ending on (and including) any Record Date (as defined in Condition 7(a)); or (iii) during the period of 14 days prior to (and including) any date on which Bonds may be called for redemption by the Issuer pursuant to Condition 6(b); or (iv) after any such Bond has been put for redemption pursuant to Condition 6(c).

(f) Regulations

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee or by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be mailed (free of charge to the Holders) by the Registrar to any Holder who requests one in writing.

4 Covenants

(a) Negative Pledge

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer will not, and the Issuer will ensure that none of its Subsidiaries will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (i) the Trustee may in its absolute discretion deem not materially less beneficial to the interest of the Bondholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

(b) Notification to NDRC

The Issuer undertakes that it will (i) within 10 Registration Business Days after the Issue Date file or cause to be filed with the NDRC the requisite information and documents in accordance with the applicable laws and regulations of the NDRC (the "**NDRC Post-issue Filing**") and (ii) comply with all applicable PRC laws and regulations in connection with the Bonds.

(c) Notification of Completion of the NDRC Post-issue Filing

The Issuer shall within five Registration Business Days after submission of the NDRC Post-issue Filing, provide the Trustee with (i) a certificate by an authorised signatory of the Issuer confirming (A) the completion of the NDRC Post-issue Filing and (B) no Change of Control, Event of Default or any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 9 become an Event of Default has occurred; and (ii) certified true copies of the relevant documents evidencing due filing with the NDRC, any other document evidencing the completion of filing confirmed by NDRC and the particulars of filing (the items specified in (i) and (ii) together, the "**Filing Documents**").

The Trustee shall have no obligation or duty to monitor or ensure the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any certificate, confirmation, or other documents in relation to or in connection with the NDRC Post-issue Filing or to give notice to the Bondholders confirming the completion of the NDRC Post-Issue Filing, and shall not be liable to Bondholders or any other person for not doing so.

(d) Financial Information

So long as any Bond remains outstanding (as defined in the Trust Deed) the Issuer will furnish the Trustee with (A) a Compliance Certificate (on which the Trustee may rely as to such compliance) within 30 days of a written request by the Trustee and at the time of provision of the Audited Financial Reports; (B) a copy of the relevant Audited Financial Reports within 120 days of the end of each Relevant Period prepared in accordance with International Financial Reporting Standards ("**IFRS**") (audited by an internationally recognised firm of independent accountants) of the Issuer and its subsidiaries in the English language; and (C) a copy of the Semi-Annual Unaudited Financial Reports within 90 days of the end of each Relevant Period prepared on a basis consistent with the audited consolidated financial statements of the Issuer and its subsidiaries in the English language; *provided that*, if at any time the shares of the Issuer is listed for trading on a stock exchange, the Issuer will file with the Trustee true and correct copies of any financial report filed with any stock exchange on which the Issuer's shares are at any time listed for trading in lieu of the reports identified in clauses (A) and (B) above, if such financial or other report is in English language, as soon as they are available but in any event not more than 14 days after such financial or other reports of the Issuer are filed with such stock exchange.

(e) Ratings

For so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution of the Bondholders, the Issuer will maintain ratings on the Bonds by at least one Rating Agency.

(f) Interest Reserve

Pursuant to the Account Bank Agreement: (i) on the Issue Date, the Issuer has undertaken to deposit an amount not less than the Specified Balance into the Interest Reserve Account; (ii) unless the Bonds have been redeemed or purchased and cancelled in full under these Conditions, the Issuer has undertaken to maintain at all times prior to the maturity date of the Bonds, an amount not less than the Specified Balance in the Interest Reserve Account; (iii) so long there is no Event of Default that is continuing, the Issuer may, at any time in the period falling not more than 14 days nor less than three business days prior to an Interest Payment Date, by written notice to the Account Bank, direct the Account Bank to pay such amount of the Reserve Fund to the Principal Paying Agent in and towards payment of interest due and payable under the Bonds on such Interest Payment Date but shall, by no later than 30 days following the relevant Interest Payment Date, deposit in the Interest Reserve Account such amount as necessary to maintain the Specified Balance; (iv) the Issuer shall not withdraw any amount from the Interest Reserve Account other than pursuant to these Conditions and the Account Bank Agreement; (v) upon the occurrence of an Event of Default under the Bonds, the Reserve Fund shall be held solely to the order of the Trustee and the Account Bank shall release the Reserve Fund in the Interest Reserve Account at the direction of the Trustee, which shall apply such funds in accordance with the provisions of the Trust Deed in and towards payment of the amounts due under the Bonds and the Trust Deed; and (vi) upon the redemption or purchase and cancellation of the Bonds in full, the Issuer shall direct the Account Bank to transfer the Reserve Fund to the Issuer in accordance with the Account Bank Agreement.

(g) Financial Covenants

(i) So long as any Bond remains outstanding, the Issuer shall ensure that the ratio of Consolidated Net Borrowings to Consolidated Net Assets shall not, for any Relevant Period, exceed 0.5 to 1.0.

(ii) If, on any date following the date of the Issue Date, the Bonds have a rating of Investment Grade from two of the three Rating Agencies and no Default or Event of Default has occurred and is continuing (a "**Suspension Event**"), then, beginning on that day and continuing until such time, if any, at which the Bonds cease to have a rating of Investment Grade from any of the Rating Agencies, Condition 4(g)(i) shall be suspended.

(iii) Condition 4(g)(i) shall be reinstituted and apply according to its term as of and from the first day on which a Suspension Event ceases to be in effect.

In these Conditions:

"**Audited Financial Reports**" means annual audited consolidated balance sheet, income statement, statement of cash flows and statements of changes in owners' equity of the Group together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

"**Compliance Certificate**" means a certificate of the Issuer signed by any one of its Authorized Signatories (as defined in the Trust Deed) that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer as at a date (the "**Certification Date**") not more than five days before the date of the certificate:

(i) no Event of Default (as defined in Condition 9) or Potential Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and

(ii) the Issuer has complied with all its obligations under the Trust Deed and the Bonds;

"**Consolidated Net Assets**" means, for any Relevant Period, (i) the total assets minus (ii) cash and cash equivalents and (iii) goodwill of the Issuer and its Subsidiaries as of the end of such Relevant Period, each of (i), (ii) and (iii) as determined in accordance with IFRS on a consolidated basis for such Relevant Period based on the consolidated financial statements of the Issuer and its Subsidiaries furnished pursuant to Condition 4(d)(A) and/or 4(d)(B) above;

"**Consolidated Net Borrowings**" means, for any Relevant Period, (i) the total interest bearing liabilities minus (ii) cash and cash equivalents of the Issuer and its Subsidiaries as of the end of such Relevant Period, each of (i) and (ii) as determined in accordance with IFRS on a consolidated basis for such Relevant Period based on the consolidated financial statements of the Issuer and its Subsidiaries furnished pursuant to Condition 4(d)(A) and/or 4(d)(B) above;

"**Interest Reserve Account**" means a U.S. dollar account established with the Account Bank in the name of the Issuer as specified in the Account Bank Agreement;

"**Issue Date**" means March 10, 2017;

"**NDRC**" means the National Development and Reform Commission of the PRC or its local counterparts;

"**person**" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof;

"**PRC**" means the People's Republic of China, which shall for the purpose of these Conditions only, exclude Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan;

"**Rating Agencies**" means (1) Fitch Rating and its successors ("**Fitch**"), (2) Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., and its successors ("**S&P**"), and (3) Moody's Investors Services, Inc., a subsidiary of Moody's Corporation, and its successors ("**Moody's**");

"**Registration Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which banks are open for business in Beijing;

"**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

"**Relevant Period**" means (i) in relation to the Audited Financial Reports, each period of twelve months ending on the last day of the Issuer's financial year (presently being December 31 of that financial year); (ii) in relation to the Unaudited Financial Reports, each period of six months ending on the last day of the Issuer's first half financial year (presently being June 30 of that financial year);

"**Reserve Fund**" means any amount standing to the credit of the Interest Reserve Account;

"**Specified Balance**" means the amount equal to the amount of interest due in respect of the outstanding Bonds for two Interest Periods (as defined in Condition 5), on Issue Date being U.S.$20,000,000;

"**Subsidiary**" means, with respect to (a) any person, any corporation, association or other business entity of which more than 50 per cent. of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such person and one or more other Subsidiaries of such person; or (b) any corporation, association and other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person;

"**Unaudited Financial Reports**" means quarterly and semi-annual (or any other interim reporting period required by applicable law or regulations) unaudited consolidated balance sheet, income statement, statement of cash flows and statements of changes in owners' equity of the Group together with any statements, reports (including any directors' and auditors' review reports, if any) and notes attached to or intended to be read with any of them; and

"**Voting Stock**" means, with respect to any person, capital stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such person.

5 Interest

(a) Interest Rate and Interest Payment Dates

The Bonds bear interest on their outstanding principal amount from and including the Issue Date at the rate of 5.0 per cent. per annum, payable semi-annually in arrear on March 10 and September 10 in each year (each an "**Interest Payment Date**") commencing on September 10, 2017. If any Interest Payment Date would otherwise fall on a day which is not a business day (as defined below), it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day.

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal or premium (if any) is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Holders, and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed. In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Bond shall be calculated per U.S.$1,000 in principal amount of the Bonds (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the rate of interest specified above, the Calculation Amount and the day count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6 Redemption and Purchase

(a) Final Redemption

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on March 10, 2020 (the "**Maturity Date**"). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) Redemption for Taxation Reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders (which notice shall be irrevocable) in accordance with Condition 16 and in writing to the Trustee and the Principal Paying Agent, at their principal amount (together with any interest accrued to the date fixed for redemption) if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the PRC, Bermuda, Hong Kong, Singapore or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, or the stating of an official position with respect to, such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after March 10, 2017, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due.

Prior to the giving of any Tax Redemption Notice pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee (A) a certificate signed by any one Authorized Signatory stating that the obligation referred to in (i) above of this Condition 6(b) cannot be avoided by the Issuer taking reasonable measures available to it, and (B) an opinion, in form and substance satisfactory to the Trustee, of independent tax or legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendments and opinion. The Trustee shall be entitled (but shall not be obliged) to accept and rely upon such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above of this Condition 6(b), in which event they shall be conclusive and binding on the Bondholders.

Upon the expiry of any such notice period as is referred to in this Condition 6(b), the Issuer shall be bound to redeem the Bonds in accordance with this Condition 6(b).

(c) Redemption for Change of Control Triggering Event

Following the occurrence of a Change of Control Triggering Event, the Holder of any Bond will have the right (the "**Change of Control Put Right**"), at such Holder's option, to require the Issuer to redeem all, but not some only, of such Holder's Bonds on the Put Settlement Date (as defined below in this Condition 6(c)) at 101 per cent. of their principal amount, together in each case with accrued interest up to (but excluding) the Put Settlement Date. To exercise such right, the Holder of the relevant Bond must deposit at the specified office of the Principal Paying Agent or any other Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a "**Put Exercise Notice**"), together with the Certificate evidencing the Bonds to be redeemed, by not later than 30 days following a Change of Control Triggering Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 16.

The "**Put Settlement Date**" shall be the fourteenth day (in the case of a redemption for a Change of Control Triggering Event) after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds the subject of Put Exercise Notices delivered as aforesaid on the Put Settlement Date.

Not later than 14 days following the day on which the Issuer becomes aware of a Change of Control Triggering Event, the Issuer shall procure that notice regarding such Change of Control Triggering Event shall be delivered to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 16) stating:

(i) the Put Settlement Date;

(ii) the date of the Change of Control Triggering Event and, briefly, the events causing the Change of Control Triggering Event;

(iii) the date by which the Put Exercise Notice must be given;

(iv) the redemption amount and the method by which such amount will be paid;

(v) the names and addresses of the Principal Paying Agent;

(vi) the procedures that Holders must follow and the requirements that Holders must satisfy in order to exercise the Change of Control Put Right; and

(vii) that a Put Exercise Notice, once validly given, may not be withdrawn.

Neither the Trustee nor any of the Agents shall have any obligation or duty to ascertain whether a change of Control Triggering Event has occurred or to monitor the occurrence of any change of Control Triggering Event, and shall not be liable to the Issuer, the Holders or any other person for not doing so.

For the purpose of these this Condition 6(c):

(A) a "**Change of Control**" means the occurrence of one or more of the following events:

(i) the merger, amalgamation or consolidation of the Issuer with or into another person (other than one or more of the Permitted Holders) or the merger or amalgamation of another person with or into the Issuer, or the sale of all or substantially all the assets of the Issuer to another person (other than one or more of the Permitted Holders);

(ii) the Permitted Holders become the beneficial owners of less than 35 per cent. of the capital stock or the total voting power of the voting stock of the Issuer;

(iii) individuals who on the Issue Date constituted the board of directors of the Issuer, together with any new directors whose nomination for election or whose election to the board of directors was approved by the Permitted Holders or a vote of at least a majority of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Issuer then in office; or

(iv) the adoption of a plan relating to the liquidation or dissolution of the Issuer.

(B) a "**Change of Control Triggering Event**" means the occurrence of both a Change of Control and a Rating Decline.

(C) "**Investment Grade**" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest Rating Categories, by S&P or any of its successors or assigns, a rating of "Aaa," or "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, a rating of "AAA," "AA," "A," "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or an equivalent rating representing one of the four highest Rating Categories, by Moody's, or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Issuer as having been substituted for S&P, Moody's and/or Fitch, as the case may be.

(D) "**Permitted Holders**" means any or all of the following:

(i) Mr. Wong Kwong Yu, Ms. Du Juan and Ms. Huang Xiu Hong;

(ii) any estate and spouse or immediate family member of the person specified in clause (i) or any legal representative of any of the foregoing; and

(iii) any person both the capital stock and the voting stock of which (or in the case of a trust, the beneficial interests in which) are at least 80 per cent. owned by the persons specified in clause (i) and (ii).

(E) "**Rating Category**" means (i) with respect to S&P and Fitch, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (ii) with respect to Moody's, any of the following categories: "Ba," "B," "Caa," "Ca," "C" and "D" (or equivalent successor categories); and (iii) the equivalent of any such category of S&P, Fitch or Moody's used by another Rating Agency. In determining whether the rating of the Bonds has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P and Fitch; "1," "2" and "3" for Moody's; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from "BB+" to "BB," as well as from "BB-" to "B+," will constitute a decrease of one gradation).

(F) "**Rating Date**" means in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (i) a Change of Control and (ii) a public notice of the occurrence of a Change of Control or of the intention by the Issuer or any other person to effect a Change of Control.

(G) a "**Rating Decline**" means in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence, of a Change of Control or the intention by the Issuer or any other person to effect a Change of Control (which period shall be extended so long as the rating of the Bonds is under publicly announced consideration for possible downgrade by any Rating Agency) of any of the events listed below:

(i) in the event the Bonds are rated by three of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Bonds by two of the Rating Agencies shall be below Investment Grade;

(ii) in the event the Bonds are rated by two of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Bonds by either of the Rating Agencies shall be below Investment Grade;

(iii) in the event the Bonds are rated by only one of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Bonds by such Rating Agency shall be below Investment Grade; or

(iv) in the event the Bonds are rated by three or fewer of the Rating Agencies and are rated below Investment Grade by such Rating Agencies on the Rating Date, the rating of the Bonds by any Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

(d) Purchase

The Issuer or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for certain purposes, including without limitation for the purpose of calculating quorums at meetings of the Holders or for the purposes of Condition 9, Condition 12(a) and Condition 13.

(e) Notice of Redemption

All Bonds in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date, in such place and in such manner as specified in such notice in accordance with this Condition 6. If there is more than one notice of redemption given in respect of any Bond (which shall include any notice given by the Issuer pursuant to Condition 6(b) and any Put Exercise Notice given by a Bondholder pursuant to Condition 6(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail. Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under any notice of redemption and shall not be liable to Holders, the Issuer or any other person for not doing so.

(f) Cancellation

All Certificates representing Bonds purchased by or on behalf of the Issuer and its Subsidiaries shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

(g) Calculations

Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Bondholders or any other person for not doing so.

7 Payments

(a) **Method of Payment**:

(i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in paragraph (ii) below.

(ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the fifteenth Payment Business Day before the due date for payment thereof (the "**Record Date"**). Payments of interest on each Bond shall be made in U.S. dollars by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing on the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

(iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of premium (if any) or interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of premium (if any) or interest so paid.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear, Clearstream, or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except December 25 and January 1.*

(b) **Payments subject to Fiscal Laws**: Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Bondholders in respect of such payments.

(c) **Payment Initiation**: Where payment is to be made by transfer to an account in U.S. dollars, payment instructions (for value on the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed on the due date for payment, or, in the case of payments of principal and premium (if any) where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on the first Payment Business Day on which the Principal Paying Agent is open for business and following the date on which the relevant Certificate is surrendered.

(d) **Appointment of Agents**: The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar with a specified office outside the United Kingdom, (iii) a Transfer Agent and (iv) such other agents as may be required by any stock exchange on which the Bonds may be listed.

Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Bondholders in accordance with Condition 16.

(e) **Delay in Payment**: Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day, if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so or if a cheque mailed in accordance with Condition 7(a)(ii) arrives after the due date for payment).

(f) **Non Payment Business Days**: If any date for payment in respect of any Bond is not a Payment Business Day, the Bondholder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment In this Condition 7, "**Payment Business Day**" means a day (other than a Saturday, a Sunday or a public holiday) on which banks and foreign exchange markets are generally open for business in New York City, Hong Kong, the place in which the specified office of the Principal Paying Agent is located, the place where payment is to be made by transfer to an account maintained with a bank in U.S. dollars and the place on which foreign exchange transactions may be carried on in U.S. dollars in the principal financial centre of the country of such currency.

8 Taxation

All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the PRC or Bermuda or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer by or within the PRC at the rate of up to and including 10 per cent., the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer is required to make a deduction or withholding in respect of PRC tax in excess of 10 per cent. or any Bermuda deduction or withholding is required, the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Bond:

(i) **Other connection**: to a Holder (or to a third party on behalf of a Holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the PRC or Bermuda other than the mere holding of the Bond;

(ii) **Surrender more than 30 days after the Relevant Date**: in respect of which the Certificate representing it is presented (where presentation is required) for payment more than 30 days after the Relevant Date except to the extent that the Holder of it would have been entitled to such Additional Tax Amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days;

(iii) **Payment by Another Paying Agent**: held by a Holder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a member state of the European Union; or

(iv) **Tax Declaration**: to a Holder (or to a third party on behalf of a Holder) who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such declaration or claim, such Holder fails to do so within any applicable period prescribed by such relevant tax authority.

References in these Conditions to principal, premium and interest shall be deemed also to refer to any Additional Tax Amounts which may be payable under this Condition 8 or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

"**Relevant Date**" in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

9 Events of Default

If an Event of Default (as defined below) occurs the Trustee at its discretion may, and if so requested in writing by Holders of at least 25 per cent. of the aggregate principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided in any such case that the Trustee shall have first been indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with any accrued but unpaid interest.

An "**Event of Default**" occurs if:

(a) **Non-Payment**: there has been a failure to pay (i) the principal of any of the Bonds when due or (ii) any interest on any of the Bonds when due and, in the case of interest, such failure continues for a period of 30 days; or

(b) **Breach of Other Obligations**: the Issuer does not perform or comply with any one or more of its obligations under the Bonds, the Trust Deed or the Account Bank Agreement and such default (i) is incapable of remedy or, (ii) if capable of remedy, is remains unremedied for within 30 days after the Trustee has given written notice thereof to the Issuer; or

(c) **Cross-Default**: (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds in the aggregate U.S.$20.0 million or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 9(c) operates); or

(d) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or a material part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 60 days; or

(e) **Security Enforced**: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Principal Subsidiaries in respect of all or a material part of its assets becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person); or

(f) **Insolvency**: the Issuer or any of its Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts as and when such debts fall due, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer or any of its Principal Subsidiaries; or

(g) **Winding-up**: an order of any court of competent jurisdiction is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Principal Subsidiaries, or the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution, or (ii) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or another Subsidiary; or

(h) **Nationalisation**: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or any of its Principal Subsidiaries; or

(i) **Authorisation and Consents**: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds, the Trust Deed, the Agency Agreement or the Account Bank Agreement, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds and the Trust Deed admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or

(j) **Illegality**: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds, the Trust Deed, the Agency Agreement or the Account Bank Agreement;

(k) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 9(d) to 9(g); or

(l) **Interest Reserve Account**: the Issuer does not perform or comply with its obligations under Condition 4(f)(iii).

In this Condition 9, a "**Principal Subsidiary**" means any Subsidiary of the Issuer:

i. whose revenue or (in the case of a Subsidiary which itself has Subsidiaries) consolidated revenue, as shown by its latest audited income statements is at least five per cent. of the consolidated revenue as shown by the latest published audited consolidated income statements of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

ii. whose total assets or (in the case of a Subsidiary which itself has Subsidiaries) consolidated total assets, as shown by its latest audited balance sheet are at least five per cent. of the amount which equals the amount included in the consolidated total assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries including, for the avoidance of doubt, the investment of the Issuer in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Issuer and after adjustment for minority interests;

provided that, in relation to paragraphs (i), (ii) and (iii) above of this definition:

a. in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Issuer adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

b. if at any relevant time in relation to the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, revenue, net profit or total assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by or on behalf of the Issuer;

c. if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenue or total assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by or on behalf of the Issuer;

d. if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (i) above of this definition) are not consolidated with those of the Issuer, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer prepared for this purpose by or on behalf of the Issuer; and

e. in the case of a Subsidiary to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall become a Principal Subsidiary upon such transfer but shall cease to be a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate) of the Issuer prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (i) or (ii) above of this definition.

10 Prescription

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal or premium (if any)) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar or the relevant Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 Meetings of Holders, Modification, Waiver, Authorisation, Determination and Entitlement of Trustee

(a) Meetings of Holders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement or the Account Bank Agreement. Such a meeting may be convened by the Trustee or the Issuer and shall be convened by the Trustee upon request in writing from Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented unless the business of such meeting includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, including consideration of proposals, *inter alia*, (i) to modify the maturity date of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds or (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in aggregate principal amount of Bondholders for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders, whether or not they were present at the meeting at which such resolution was passed.

The Trust Deed provides that a resolution in writing signed by or on behalf of the Bondholders of not less than 90 per cent. in principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) Modification

The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification to these Conditions, the Trust Deed, the Account Bank Agreement and the Agency Agreement that is, in the opinion of the Trustee, of a formal, minor or technical nature or to correct a manifest error or to comply with any mandatory provision of applicable law, and (ii) any other modification (except as prohibited in the Trust Deed), and any waiver or authorisation of any breach or proposed breach or any of the provisions of the Trust Deed, the Account Bank Agreement or the Agency Agreement that is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. Any such modification, waiver or authorisation shall be binding on the Holders and, unless the Trustee agrees otherwise, such modification shall be notified to the Bondholders by the Issuer as soon as practicable thereafter in accordance with Condition 16.

(c) Entitlement of the Trustee

In connection with the exercise of its functions, rights, powers and/or discretions (including but not limited to those referred to in this Condition 12), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

13 Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings, actions or steps against the Issuer as it may think fit to enforce the terms of the Trust Deed Agency Agreement, Account Bank Agreement and/or the Bonds, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and/or any entity related to the Issuer without accounting for any profit.

The Trustee shall not be under any obligation to monitor compliance with the provisions of the Trust Deed, the Agency Agreement, the Account Bank Agreement or these Conditions (including, without limitation, the financial covenants set out in Condition 4(g)). None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer and any other person appointed by the Issuer in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has express written notice from the Issuer to the contrary, the Trustee and each Agent shall assume that the same are being duly performed.

None of the Trustee or any Agent shall be liable to any Bondholder or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Bondholders. The Trustee shall be entitled to rely on any direction, request or resolution of Bondholders given by the Holders of the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed. Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement, the Account Bank Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to its exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction to seek directions from the Bondholders by way of an Extraordinary Resolution, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Trustee is seeking such directions from the Bondholders or in the event that no such directions are received.

The Trustee may rely without liability to Holders on any report, information, confirmation or certificate from or any opinion or advice of any accountants, auditors, lawyers, valuers, auctioneers, surveyors, brokers, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, information, confirmation, certificate, opinion or advice, in which case such report, information, confirmation, certificate, opinion or advice shall be binding on the Issuer and the Holders.

15 Further Issues

The Issuer is at liberty from time to time without the consent of the Holders to create and issue further securities having the same terms and conditions as the Bonds in all material respects (or in all material respects save for the issue date, issue price, the first payment of interest on them and the timing for complying with the NDRC Post-issue Filing) and so that the same shall be consolidated and form a single series with the outstanding Bonds. Any further securities shall be constituted by a deed supplemental to the Trust Deed.

References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15.

16 Notices

All notices to the Holders will be valid if (i) mailed to them by uninsured mail at their respective addresses in the Register and (ii) published in a leading newspaper having general circulation in Asia. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any notice shall be deemed to have been given, on the date of such publication or, if published more than once, on the first date on which publication is made.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear Bank SA/NV or Clearstream Banking S.A. or the Alternative Clearing System (as defined in the form of the Global Certificate), notices to the holders of the Bonds shall be validly given by the delivery of the relevant notice to Euroclear Bank SA/NV or Clearstream Banking S.A. or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

17 Contracts (Rights of Third Parties) Ordinance

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Ordinance (Cap. 623).

18 Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed, the Agency Agreement, the Account Bank Agreement and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, Hong Kong law.

(b) Jurisdiction

The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bonds, the Trust Deed, Account Bank Agreement and the Agency Agreement and accordingly any legal action or proceedings arising out of or in connection with any Bonds, the Trust Deed and the Agency Agreement ("**Proceedings**") may be brought in such courts. The Issuer has in the Trust Deed, irrevocably submitted to the jurisdiction of such courts and waived any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(c) Authorised Representative for Service of Process

The Issuer has established its principal place of business in Hong Kong at Suite 2915, 29th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong and has registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance (Cap. 622) of Hong Kong. In connection with such registration, the Issuer irrevocably agrees that service of process in any legal actions or proceedings arising out of or in connection with the Bonds shall be sufficiently and effectively served on it if delivered in accordance with the Trust Deed.

(d) Waiver of Immunity

The Issuer has waived any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and has irrevocably consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) or any order or judgment made or given in connection with any Proceedings.

TAXATION

The following summary of certain Bermuda, Hong Kong and PRC tax consequences of the purchase, ownership and disposition of the New Bonds is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the New Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of New Bonds should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of New Bonds.

BERMUDA

Bermuda Taxation

Under current Bermuda legislation, there is no income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by us or any holders of the New Bonds who are not ordinarily resident in Bermuda in respect of the New Bonds. Further, no such tax is imposed by withholding or otherwise on any payment to be made to or made by us. Moreover, we have obtained from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act, 1966, an assurance that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until 31st March, 2035 be applicable to us or to any of our operations or its shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by us in respect of real property owned or leased by us in Bermuda.

Stamp Duty

As an exempted company, we are exempt from all stamp duties except on transactions involving "Bermuda property". This term relates essentially to real and personal property physically situated in Bermuda, including shares in local (as opposed to exempted) companies. None of us or the holders of the New Bonds, as the case may be (other than persons ordinarily resident in Bermuda), are subject to stamp duty on the issue or transfer of the New Bonds.

HONG KONG

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Bonds) and interest in respect of the New Bonds.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the New Bonds where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the New Bonds will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

- a corporation carrying on a trade, profession or business in Hong Kong; or

- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale, redemption or disposal of the New Bonds where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue, redemption or transfer of the New Bonds as the New Bonds are not denominated in H.K. dollars and not redeemable in H.K. dollars.

PRC

Under the EIT Law and the Implementation Rules, both of which took effect on January 1, 2008, enterprises established outside the PRC whose "de facto management bodies" are located in China are considered as "PRC resident enterprises." The Implementation Rules define the term "de facto management body" as a management body that exercises full and substantial control and management over the business, production, personnel, accounts and properties of an enterprise.

The Company holds its shareholders' meeting and board meetings outside China and keeps its shareholders' list outside China. However, most of the Company's directors and senior management are currently based inside China and the Company keeps its books of account inside China. The above elements may be relevant for the tax authorities to determine whether the Company is a PRC resident enterprise for PRC tax purposes.

Although it is unclear under PRC tax law whether the Company has a "de facto management body" located in China for PRC tax purposes, the Company intends to take the position that it is not a PRC resident enterprise for PRC tax purposes. The Company cannot assure you that tax authorities will respect its position. If the Company is deemed to be a PRC resident enterprise for enterprise income tax purpose, among other things, the Company would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income excluding equity investment income such as dividend and bonus between the Company and its PRC subsidiaries if they are each deemed a qualified PRC resident enterprise. Furthermore, the Company would be obligated to withhold PRC income tax from payments of interest on the New Bonds to investors that are non-resident enterprises, generally at the rate of 10% (unless a lower rate is applicable), because the interest would be regarded as income derived from sources within the PRC. If the Company fails to do so, it may be subject to fines and other penalties. In addition, any gain realized by such non-resident enterprise investors from the transfer of the New Bonds may be regarded as income derived from sources within the PRC and accordingly may be subject to PRC income tax at a rate of 10% (unless a lower rate is applicable).

PLAN OF DISTRIBUTION

We entered into a subscription agreement with the Sole Lead Manager dated June 20, 2017 (the "Subscription Agreement"), pursuant to which and subject to certain conditions contained therein, the New Bonds will be issued on June 23, 2017 (the "New Issue Date"). We have agreed to sell to the Sole Lead Manager, and the Sole Lead Manager has agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the aggregate principal amount of the New Bonds at an issue price of 100.625% of the principal amount plus an amount corresponding to accrued interest from, and including, March 10, 2017 to, but excluding, the New Issue Date.

The Subscription Agreement provides that the Sole Lead Manager and its affiliates, and its directors, officers, employees and agents will be indemnified against certain liabilities in connection with the offer and sale of the New Bonds. The Subscription Agreement provides that the obligations of the Sole Lead Manager are subject to certain conditions precedent, and entitles the Sole Lead Manager to terminate it in certain circumstances prior to payment being made to us.

The Sole Lead Manager and certain of its subsidiaries or affiliates have performed certain investment banking and advisory services for, and entered into certain commercial banking transactions with, we and/or our subsidiaries, from time to time, for which they have received customary fees and expenses. The Sole Lead Manager and its subsidiaries or affiliates may, from time to time, engage in transactions with and perform services for us and/or our subsidiaries in the ordinary course of business.

In connection with the offering of the New Bonds, the Sole Lead Manager and/or its affiliate(s) may act as an investor for its own account and may take up New Bonds in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of us and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the New Bonds being "offered" should be read as including any offering of the New Bonds to the Sole Lead Manager and/or its affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. The Sole Lead Manager or its affiliates may purchase the New Bonds for its own account or for the accounts of their customers and enter into transactions, including credit derivatives, such as asset swaps, repackagings and credit default swaps relating to the New Bonds and/or other securities of us or our subsidiaries or associates at the same time as the offer and sale of the New Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the New Bonds to which this offering memorandum relates (notwithstanding that such selected counterparties may also be purchasers of the New Bonds).

In connection with the issue of the New Bonds, the Sole Lead Manager is appointed and acting in the capacity of Stabilizing Manager and to the extent permitted by applicable laws and regulations may over-allot the New Bonds or effect transactions with a view to supporting the market price of the New Bonds at a level higher than that which might otherwise prevail, but in so doing, the Stabilizing Manager or any person acting on behalf of the Stabilizing Manager shall act as principal and not as agent of us. However, there is no assurance that the Stabilizing Manager or any person acting on behalf of the Stabilizing Manager will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the New Bonds is made and, if begun, may be ended at any time, but must end after a limited period. Any loss or profit sustained as a consequence of any such over-allotment or stabilization shall be for the account of the Stabilizing Manager.

GENERAL

The distribution of this offering memorandum or any offering material and the offering, sale or delivery of the New Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this offering memorandum or any offering material are advised to consult their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This offering memorandum may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized.

No action has been or will be taken in any jurisdiction by us or the Sole Lead Manager that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the New Bonds, or possession or distribution of this offering memorandum, any amendment or supplement thereto issued in connection with the proposed resale of the Bonds or any other offering or publicity material relating to the New Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, the New Bonds may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the New Bonds may be distributed or published, by us or the Sole Lead Manager, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on us or the Sole Lead Manager. If a jurisdiction requires that an offering of Bonds be made by a licensed broker or dealer and the Sole Lead Manager or any affiliate of the Sole Lead Manager is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Sole Lead Manager or such affiliate on behalf of us in such jurisdiction.

UNITED STATES

The New Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The New Bonds are being offered and sold outside the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the New Bonds, an offer or sale of New Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

UNITED KINGDOM

The Sole Lead Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any New Bonds in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the New Bonds in, from or otherwise involving the United Kingdom.

EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), the Sole Lead Manager represented, warranted and undertaken that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of New Bonds which are the subject of the offering contemplated by the offering memorandum to the public in that Relevant Member State other than:

(a) qualified investors: to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) fewer than 150 offerees: to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Sole Lead Manager nominated by us for any such offer; or

(c) other exempt offers: in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of New Bonds shall require us or the Sole Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of New Bonds to the public" in relation to any New Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the New Bonds to be offered so as to enable an investor to decide to purchase or subscribe the New Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (as amended by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

HONG KONG

The Sole Lead Manager has represented, warranted and undertaken that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any New Bonds other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the New Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the New Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made thereunder.

PRC

The Sole Lead Manager has represented, warranted and undertaken that the New Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

SINGAPORE

The Sole Lead Manager has acknowledged that this offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, the Sole Lead Manager has represented, warranted and undertaken that it has not offered or sold any New Bonds or caused such New Bonds to be made the subject of an invitation for subscription or purchase, and will not offer or sell such New Bonds or cause such New Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such New Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the New Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the New Bonds pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

JAPAN

The New Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) (the "**Financial Instruments and Exchange Act**") and, accordingly, the Sole Lead Manager has represented, warranted and undertaken that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any New Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws, regulations and ministerial guidelines of Japan.

BERMUDA

No offer or invitation may be made to the public in Bermuda to subscribe for the New Bonds. The Sole Bookrunner and Sole Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any New Bonds to the public in Bermuda and will procure that any purchaser of the New Bonds from the Sole Bookrunner and Sole Lead Manager will comply with such prescription.

TRANSFER RESTRICTIONS

The New Bonds are subject to restrictions on transfer as summarized below. By purchasing the New Bonds, you will be deemed to have made the following acknowledgements, representations to and agreements with us and the Sole Lead Manager:

You acknowledge that:

- the New Bonds have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and

- unless so registered, the New Bonds may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws.

You represent that you are purchasing the New Bonds in an offshore transaction in accordance with Regulation S.

You acknowledge that neither we nor the Sole Lead Manager nor any person representing us or the Sole Lead Manager has made any representation to you with respect to us or the offering of the New Bonds, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the New Bonds. You agree that you have had access to such financial and other information concerning us and the New Bonds as you have deemed necessary in connection with your decision to purchase New Bonds, including an opportunity to ask questions of and request information from us.

You represent that you are purchasing the New Bonds for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the New Bonds in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the New Bonds pursuant to any available exemption from registration under the Securities Act.

You also acknowledge that each New Bond will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

You acknowledge that we, the Sole Lead Manager, the Trustee, the Transfer Agent and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of New Bonds is no longer accurate, you will promptly notify us, the Sole Lead Manager, the Trustee and the Transfer Agent. If you are purchasing any New Bonds as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

RATINGS

The Bonds have been rated "BB-" by S&P. The rating reflects the rating agency's assessment of the likelihood of timely payment of the principal of and interest on the Bonds. The rating does not constitute recommendations to purchase, hold or sell the New Bonds inasmuch as such rating does not comment as to market price or suitability for a particular investor. In addition, we have been rated "BB" with a stable outlook by S&P. We cannot assure you that the rating will remain in effect for any given period or that the rating will not be revised by such rating agency in the future if in its judgment circumstances so warrant. Such rating should be evaluated independently of any other rating on the Bonds (if any), on other of our securities, or on us.

LEGAL MATTERS

Certain legal matters with respect to the Bonds will be passed upon for us by Sidley Austin as to matters of Hong Kong law, Conyers Dill & Pearman as to matters of Bermuda law, and Jingtian & Gongcheng as to matters of PRC law. Certain legal matters will be passed upon for the Sole Lead Manager by Latham & Watkins as to matters of Hong Kong law and King & Wood Mallesons as to matters of PRC law.

INDEPENDENT ACCOUNTANTS

Our audited consolidated financial statements as of and for each of the three years ended December 31, 2015 and 2016 included in this offering memorandum had been audited by Ernst & Young, Certified Public Accountants, Hong Kong, as stated in their reports appearing herein, and in our annual reports for the years ended December 31, 2015 and 2016. The audited consolidated financial statements as of and for the year ended December 31, 2014 are included as comparative information within the audited consolidated financial statements as of and for the year ended December 31, 2015.

For the purpose of the offers and sales outside the United States in reliance on Regulation S, Ernst & Young has acknowledged the references to its name and the inclusion of its reports in the form and context in which they are respectively included in this offering memorandum.

CONSENTS

We have obtained all necessary consents, approvals and authorizations in Bermuda and Hong Kong in connection with the issue and performance of the New Bonds. The issue of the New Bonds have been authorized by a resolution of our Board of Directors dated June 19, 2017.

LITIGATION

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the New Bonds.

NO MATERIAL ADVERSE CHANGE

There has been no adverse change or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2016 that is material in the context of the issue of the New Bonds.

DOCUMENTS AVAILABLE

For so long as any of the Bonds are outstanding, copies of the Trust Deed governing the Bonds (including the Supplemental Trust Deed governing the New Bonds) may be inspected free of charge during normal business hours on any weekday (except public holidays) upon prior written notice and proof of holding at the registered office of the Trustee.

For so long as any of the Bonds are outstanding, copies of our audited financial statements for the past two fiscal years, if any, may be obtained during normal business hours on any weekday (except public holidays) upon prior written notice and proof of holding at the registered office of the Trustee.

CLEARING SYSTEM AND SETTLEMENT

The New Bonds have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the New Bonds is set forth below:

	ISIN	Common Code
Global Bonds	XS1556170394	155617039

Only Bonds evidenced by a Global Bond have been accepted for clearance through Euroclear and Clearstream.

LISTING OF THE BONDS

The Original Bonds are listed on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering memorandum. Approval in-principle from, admission to the Official List of, and listing and quotation of the New Bonds on, the SGX-ST are not to be taken as an indication of the merits of the Company or the New Bonds. For so long as the New Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the New Bonds will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies).

For so long as the New Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Bond is exchanged for definitive Bonds, we will appoint and maintain a paying agent in Singapore where the New Bonds may be presented or surrendered for payment or redemption. In addition, in the event that a Global Bond is exchanged for definitive Bonds, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Bonds, including details of the paying agent in Singapore.

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

Note:

(1) The audited consolidated financial statements of our Group set forth herein have been reproduced from our annual reports for the years ended December 31, 2015 and 2016 and page references are references to pages set forth in such annual reports. These annual reports are not incorporated by reference herein and do not form part of this offering memorandum.

Independent Auditor's Report

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www.ey.com

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

OPINION

We have audited the consolidated financial statements of GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 83 to 191, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Acquisition of Artway Development Limited and its subsidiaries during the year	
As further explained in note 5 to the financial statements, during the year the Group acquired control over, and therefore consolidated Artway Development Limited and its subsidiaries (collectively referred to as the "Target Group"). The accounting for the acquisition is complex and requires significant judgements when performing the purchase price allocation, including determining the fair values of the warrants issued as part of the consideration paid, and the Target Group's identifiable assets and liabilities. The Company, assisted by its external valuation specialists, determined the fair value of the non-cash consideration and the Target Group's identifiable assets and liabilities. The purchase price allocation resulted in goodwill of RMB6,987,869,000 The Group's disclosures about the business combination are included in notes 3 and 5 to the consolidated financial statements.	We involved our valuation experts to assist us in evaluating the fair value of the non-cash consideration and the Target Group's identifiable assets and liabilities. These procedures included evaluating the fair values of the warrants issued as part of the consideration for the acquisition, the methodology, assumptions and discount rate used in calculating the fair value of the identifiable assets and liabilities of the Target Group, the procedures applied to identify and fair value the assets and liabilities of the Target Group on acquisition and the competency and objectivity of the external valuation specialist engaged by the Company. We also assessed the adequacy of disclosures about the business combination in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
Under IFRSs, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of RMB14,324,966,000 as of 31 December 2016 was material to the consolidated financial statements. In addition, management's assessment process is complex and judgemental and is based on various assumptions, specifically assumptions about store revenues, gross margins, expenses and the discount rate, which are affected by expected future market or economic conditions. The Group's disclosures about goodwill are included in notes 3 and 15 to the consolidated financial statements.	Our audit procedures included, among others, involving our valuation experts to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the discount rate and long term growth rate for Artway Development Limited, China Paradise Electronics Retail Limited ("China Paradise") and Beijing Dazhong Home Appliances Retail Co., Ltd ("Dazhong Appliances"). Our testing included, but was not limited to, comparing key assumptions to externally available industry, economic and financial data and the Group's own historical data and performance. We also performed a sensitivity analysis for the recoverable amounts of the respective cash-generating units. We also focused on the adequacy of the disclosures about the key assumptions used in the value in use calculations in the consolidated financial statements.
Impairment testing of store assets	
The Group operates retail stores in Mainland China. The store assets which mainly represent leasehold improvements were important to our audit due to the size of the store assets with a carrying amount of RMB938,498,000 at 31 December 2016, as well as the judgement of management involved in the assessment of the recoverability of the assets. Such judgement is mainly focused on estimating future store performance, which is dependent on, amongst others, the industry landscape, overall economic environment and the competitors in local markets. Management assesses, on a half-year basis, whether there are events indicating a potential impairment. Management provided for an impairment loss of RMB37,852,000 during the year. The Group's disclosures about impaired assets are included in notes 3 and 13 to the consolidated financial statements.	Our audit procedures included, among others, an evaluation of the Group's policies and procedures to identify events that are indicators of the potential impairment of assets related to underperforming stores. We assessed management's cash flow assumptions for each cash-generating unit for which an impairment indicator was identified and corroborated them by comparing to internal forecasts and store improvement plans, as well as to historical data and performance. We also involved our valuation experts to evaluate the discount rate applied by the Group.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Denis Ming Kui Cheng.

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	6	**76,695,025**	64,595,127
Cost of sales	7	**(66,318,216)**	(55,082,038)
Gross profit		**10,376,809**	9,513,089
Other income and gains	6	**1,964,324**	1,994,026
Selling and distribution expenses		**(9,448,122)**	(7,791,964)
Administrative expenses		**(1,979,752)**	(1,580,572)
Other expenses		**(751,945)**	(768,601)
Profit before finance (costs)/income and tax		**161,314**	1,365,978
Finance costs	8	**(234,615)**	(43,226)
Finance income	8	**231,794**	253,999
PROFIT BEFORE TAX	7	**158,493**	1,576,751
Income tax expense	11	**(212,688)**	(640,257)
(LOSS)/PROFIT FOR THE YEAR		**(54,195)**	936,494
Attributable to:			
Owners of the parent		**325,139**	1,207,963
Non-controlling interests	37	**(379,334)**	(271,469)
		(54,195)	936,494
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
– Basic		**RMB1.6 fen**	RMB7.1 fen
– Diluted		**RMB1.6 fen**	RMB7.1 fen

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
(LOSS)/PROFIT FOR THE YEAR		**(54,195)**	936,494
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of other investments	*18*	**20,322**	212,992
Exchange differences on translation of foreign operations		**(1,035)**	3,292
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**19,287**	216,284
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**19,287**	216,284
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(34,908)**	1,152,778
Attributable to:			
Owners of the parent		**344,426**	1,424,247
Non-controlling interests	*37*	**(379,334)**	(271,469)
		(34,908)	1,152,778

Consolidated Statement of Financial Position

31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT ASSETS			
Property and equipment	*13*	**6,644,941**	4,393,245
Investment properties	*14*	**605,030**	599,832
Goodwill	*15*	**14,324,966**	7,145,117
Other intangible assets	*16*	**432,403**	242,363
Investments in associates	*17*	**17,000**	–
Other investments	*18*	**1,007,046**	595,013
Lease prepayments and deposits	*19*	**1,521,948**	1,423,833
Entrusted loans	*20*	**500,000**	–
Deferred tax assets	*21*	**56,251**	40,140
Total non-current assets		**25,109,585**	14,439,543
CURRENT ASSETS			
Inventories	*22*	**11,605,958**	10,176,004
Trade and bills receivables	*23*	**162,908**	189,439
Prepayments, deposits and other receivables	*24*	**4,731,201**	4,245,343
Due from related companies	*25*	**239,392**	189,694
Equity investments at fair value through profit or loss	*26*	**1,333,529**	1,029,142
Pledged deposits	*27*	**5,382,804**	3,880,903
Cash and cash equivalents	*27*	**13,236,752**	7,437,717
Total current assets		**36,692,544**	27,148,242
CURRENT LIABILITIES			
Trade and bills payables	*28*	**23,898,406**	19,290,931
Customers' deposits, other payables and accruals	*29*	**3,932,511**	2,591,986
Interest-bearing bank loans	*30*	**520,164**	971,512
Due to related companies	*25*	**661,427**	1,028,149
Tax payable		**1,051,761**	857,222
Total current liabilities		**30,064,269**	24,739,800

Consolidated Statement of Financial Position

31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
NET CURRENT ASSETS		**6,628,275**	2,408,442
TOTAL ASSETS LESS CURRENT LIABILITIES		**31,737,860**	16,847,985
NON-CURRENT LIABILITIES			
Bonds payable	*31*	**8,849,485**	–
Deferred tax liabilities	*21*	**443,098**	159,623
Interest-bearing bank loans	*30*	**1,470,050**	–
Total non-current liabilities		**10,762,633**	159,623
Net assets		**20,975,227**	16,688,362
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*32*	**527,309**	423,268
Reserves	*36*	**21,958,850**	17,402,681
		22,486,159	17,825,949
Non-controlling interests		**(1,510,932)**	(1,137,587)
Total equity		**20,975,227**	16,688,362

Zhang Da Zhong
Director

Zou Xiao Chun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

		Attributable to owners of the parent														
	Notes	Issued capital RMB'000 Note 32	Treasury shares RMB'000 Note 34	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Warrant reserve RMB'000	Asset revaluation reserve# RMB'000	Other investment revaluation reserve RMB'000	Statutory reserves RMB'000 Note 36	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016		423,268	-	9,548,118	657	(618,172)	163,383	-	117,468	336,382	1,632,156	(147,580)	6,370,269	17,825,949	(1,137,587)	16,688,362
Loss for the year		-	-	-	-	-	-	-	-	-	-	-	325,139	325,139	(379,334)	(54,195)
Other comprehensive income/(loss) for the year:																
Changes in fair value of other investments	18	-	-	-	-	-	-	-	-	20,322	-	-	-	20,322	-	20,322
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	-	-	(1,035)	-	(1,035)	-	(1,035)
Total comprehensive income for the year		-	-	-	-	-	-	-	-	20,322	-	(1,035)	325,139	344,426	(379,334)	(34,908)
Establishment of a subsidiary		-	-	-	-	-	-	-	-	-	-	-	-	-	5,989	5,989
Issue of shares		114,572	-	5,018,248	-	-	-	-	-	-	-	-	-	5,132,820	-	5,132,820
Shares repurchased for cancellation		(10,531)	-	(382,867)	-	-	-	-	-	-	-	-	-	(393,398)	-	(393,398)
Shares repurchased for share award scheme		-	(257,495)	-	-	-	-	-	-	-	-	-	-	(257,495)	-	(257,495)
Equity-settled share option arrangements	33	-	-	-	-	-	337	-	-	-	-	-	-	337	-	337
Transfer to statutory reserves		-	-	-	-	-	-	-	-	-	42,828	-	(42,828)	-	-	-
2015 dividend paid	38	-	-	-	-	-	-	-	-	-	-	-	(284,211)	(284,211)	-	(284,211)
Reclassification of warrants	35	-	-	-	-	-	-	117,731	-	-	-	-	-	117,731	-	117,731
Wind-up of subsidiaries		-	-	-	-	-	-	-	-	-	(219)	-	219	-	-	-
At 31 December 2016		527,309	(257,495)*	14,183,499*	657*	(618,172)*	163,720*	117,731*	117,468*	356,704*	1,674,765*	(148,615)*	6,368,588*	22,486,159	(1,510,932)	20,975,227

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

		Attributable to owners of the parent												
	Notes	Issued capital RMB'000 Note 32	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve# RMB'000	Other investment revaluation reserve RMB'000	Statutory reserves RMB'000 Note 36	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015		423,221	9,543,093	657	(618,172)	163,036	117,468	123,390	1,505,592	(150,872)	5,798,503	16,905,916	(871,398)	16,034,518
Profit for the year		–	–	–	–	–	–	–	–	–	1,207,963	1,207,963	(271,469)	936,494
Other comprehensive income for the year:														
Changes in fair value of other investments	18	–	–	–	–	–	–	212,992	–	–	–	212,992	–	212,992
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	3,292	–	3,292	–	3,292
Total comprehensive income for the year		–	–	–	–	–	–	212,992	–	3,292	1,207,963	1,424,247	(271,469)	1,152,778
Establishment of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	5,280	5,280
Exercise of share options		47	5,025	–	–	(1,555)	–	–	–	–	–	3,517	–	3,517
Equity-settled share option arrangements	33	–	–	–	–	1,902	–	–	–	–	–	1,902	–	1,902
Transfer to statutory reserves		–	–	–	–	–	–	–	129,318	–	(129,318)	–	–	–
2014 dividend paid	38	–	–	–	–	–	–	–	–	–	(234,864)	(234,864)	–	(234,864)
2015 interim dividend paid	38	–	–	–	–	–	–	–	–	–	(274,769)	(274,769)	–	(274,769)
Wind-up of subsidiaries		–	–	–	–	–	–	–	(2,754)	–	2,754	–	–	–
At 31 December 2015		423,268	9,548,118*	657*	(618,172)*	163,383*	117,468*	336,382*	1,632,156*	(147,580)*	6,370,269*	17,825,949	(1,137,587)	16,688,362

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 RMB21,958,850,000 (2015: RMB17,402,681,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**158,493**	1,576,751
Adjustments for:			
Finance income	8	**(231,794)**	(253,999)
Finance costs	8	**234,615**	43,226
(Gain)/loss on equity investments at fair value through profit or loss	7	**(10,207)**	206,758
Fair value gain on derivative financial instruments	7	**(109,121)**	–
Impairment of goodwill	15	**22,986**	–
Impairment provision for items of property and equipment	7	**37,852**	12,695
Net fair value gain on investment properties	7	**(5,198)**	(9,534)
Loss on disposal of items of property and equipment	7	**5,859**	7,957
Depreciation	7	**723,993**	500,978
Amortisation of intangible assets	7	**39,700**	23,438
Amortisation of prepaid land lease payments	7	**23,074**	1,979
Gain on compensation received		**(81,915)**	–
Equity-settled share option expense	33	**337**	1,902
		808,674	2,112,151
Decrease in lease prepayments and deposits		**73,719**	28,044
Decrease in inventories		**1,391,670**	750,395
Decrease in trade and bills receivables		**71,326**	78,255
Decrease/(increase) in prepayments, deposits and other receivables		**125,413**	(859,356)
Decrease in amounts due from related companies		**1,571,624**	38,270
Decrease in pledged deposits for bills payable		**271,035**	247,865
Decrease in trade and bills payables		**(615,329)**	(1,589,499)
Increase in customers' deposits, other payables and accruals		**330,614**	166,573
(Decrease)/increase in amounts due to related companies		**(1,267,105)**	506,936
Cash generated from operations		**2,761,641**	1,479,634
Interest received		**231,794**	253,999
Income tax paid		**(308,240)**	(420,906)
Net cash flows from operating activities		**2,685,195**	1,312,727

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Net cash flows from operating activities		**2,685,195**	1,312,727
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(745,607)**	(566,786)
Proceeds from disposal of items of property and equipment		**131,400**	80,071
Net proceeds from acquisition of subsidiaries	5	**481,042**	–
Prepaid land lease payments		**(131,283)**	(1,142,728)
Purchases of equity investments at fair value through profit or loss		**(281,323)**	(1,235,900)
Purchases of available-for-sale investments		**(391,711)**	(164,671)
Investment in entrusted loans		**(500,000)**	–
Investments in associates		**(17,000)**	–
Refund from Huishang Bank Corporation Limited for share subscription		**–**	1,411,973
Net cash flows used in investing activities		**(1,454,482)**	(1,618,041)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares		**(650,893)**	–
Proceeds from the issuance of corporate bonds		**8,834,767**	–
Capital injection from non-controlling shareholders		**5,989**	5,280
Proceeds from new bank loans		**1,901,342**	2,694
Repayment of bank loans		**(4,574,844)**	(2,469,729)
(Increase)/decrease in pledged deposits for bank loans		**(703,600)**	1,944,127
Dividends paid		**(284,211)**	(509,633)
Interest paid		**(27,739)**	(43,226)
Exercise of share options		**–**	3,517
Net cash flows from/(used in) financing activities		**4,500,811**	(1,066,970)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**5,731,524**	(1,372,284)
Cash and cash equivalents at beginning of year		**7,437,717**	8,794,112
Effect of foreign exchange rate changes, net		**67,511**	15,889
CASH AND CASH EQUIVALENTS AT END OF YEAR		**13,236,752**	7,437,717
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**12,603,870**	6,835,713
Non-pledged time deposits with original maturity of less than three months when acquired		**632,882**	602,004
		13,236,752	7,437,717

Notes to Financial Statements

31 December 2016

1. CORPORATE AND GROUP 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 "Stock Exchange"). 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 retail stores of electrical appliances and consumer electronic products and online sale of electronic products in the People's Republic of China (the "PRC").

Information about subsidiaries

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		Principal activities
			Direct	Indirect	
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	–	Note (v)
Hong Kong Punching Centre Limited	Hong Kong	HK$100,000	–	100	Property holding
Ocean Town Int'l Inc.	British Virgin Islands/ Hong Kong	US$50,000	–	100	Investment holding
GOME Appliance Company Limited (viii) 國美電器有限公司	PRC	RMB1 billion	–	100	Note (vi)
Tianjin GOME Electrical Appliance Company Limited (i) 天津國美電器有限公司	PRC	RMB40 million	–	100	Note (iii)
Chongqing GOME Electrical Appliance Company Limited (i) 重慶國美電器有限公司	PRC	RMB20 million	–	100	Note (iii)

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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
Chengdu GOME Electrical Appliance Company Limited (i) 成都國美電器有限公司	PRC	RMB20 million	–	100	Note (iii)
Xi'an GOME Electrical Appliance Company Limited (i) 西安國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Kunming GOME Electrical Appliance Company Limited (i) 昆明國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Shenzhen GOME Electrical Appliance Company Limited (i) 深圳國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Fuzhou GOME Electrical Appliance Company Limited (i) 福州國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Guangzhou GOME Electrical Appliance Company Limited (i) 廣州市國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Wuhan GOME Electrical Appliance Company Limited (i) 武漢國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
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)

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Kunming GOME Logistics Company Limited (i) 昆明國美物流有限公司	PRC	RMB8 million	–	100	Note (iv)
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)
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)
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)
Nanjing Pengze Investment Company Limited (i) 南京鵬澤投資有限公司	PRC	RMB156 million	–	100	Property holding

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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
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)
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)

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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
Shandong Longji Island Construction Company Limited (i) 山東龍脊島建設有限公司	PRC	RMB10 million	–	100	Investment holding
Tianjin Pengze Logistics Company Limited (i) (viii) 天津鵬澤物流有限公司	PRC	US$50 million	–	100	Note (iv)
Beijing Dazhong Hengxin 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 Hengxing Ruida Logistics Company Limited (i) 天津恒信瑞達物流有限公司	PRC	RMB20 million	–	100	Note (iv)
Kuba Technology (Beijing) Co., Ltd. ("Kuba") (i) 庫巴科技(北京)有限公司	PRC	RMB83 million	–	60	Note (ix)
GOME-on-line e-Commerce Co., Ltd. ("GOME-on-line") (i) 國美在綫電子商務有限公司	PRC	RMB83 million	–	60	Note (ix)
GOME Japan Company Limited	Japan	JPY200 million	–	51	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)
GOME International Trading Company Limited 國美海外購有限公司	Hong Kong	HK$1	–	100	Note (ix)
Shantou Shengyuan Yuexin Technology Co., Ltd. (i) 汕頭盛源悅信科技有限公司	PRC	US$30 million	–	100	Notes (iv)/(v)

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1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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 Yunzhi Technology Co., Ltd. (i) 國美雲智科技有限公司	PRC	RMB50 million	–	100	Note (xi)
GOME Big Data Holdings (H.K.) Limited 國美大數據(香港)控股有限公司	Hong Kong	HK$1	100	–	Investment holding
Beijing GOME Anxun Technology Co., Ltd. (i) 北京國美安迅科技有限公司	PRC	RMB50 million	–	100	Note (x)
Shenyang GOME Anxun Technology Co., Ltd. (i) 瀋陽國美安迅科技有限公司	PRC	RMB50 million	–	100	Note(x)
Beijing GOME Steward IT Co., Ltd. (i) 北京國美管家信息技術有限公司	PRC	RMB10 million	–	65	Note(x)
Ningbo GOME Anxun Technology Co., Ltd. (i) 寧波國美安迅科技有限公司	PRC	RMB50 million	–	100	Note(x)
GOME Big Data Technology Co., Ltd. (i) 國美大數據科技有限公司	PRC	RMB50 million	–	100	Note(xi)
Chengdu GOME Big Data Technology Co., Ltd. (i) 成都國美大數據科技有限公司	PRC	RMB30 million	–	100	Note(xi)
Tianjin GOME Equity Investment Management Co., Ltd. (i) 天津國美股權投資管理有限公司	PRC	RMB30 million	–	100	Investment holding
Tianjin GOME Xinchang Equity Investment Management Co., Ltd. (i) 天津國美信昌股權投資管理有限公司	PRC	RMB10 million	–	100	Investment holding

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1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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
Dazi GOME Xinze Entrepreneurship Investment Management Co., Ltd. (i) 達孜國美信澤創業投資管理有限公司	PRC	RMB10 million	–	100	Investment holding
Tianjin GOME Xinchangda Equity Investment LLP 天津國美信昌達股權投資合伙企業（有限合伙）	PRC	RMB61 million	–	100	Investment holding
Artway Development Limited 藝偉發展有限公司	British Virgin Islands	–	100	–	Investment holding
Beijing Jinzun Technology Development Co., Ltd. (i) 北京金尊科技發展有限公司	PRC	RMB108.9 million	–	100	Investment holding
GOME Electrical Appliances Retail Co., Ltd. (i) 國美電器零售有限公司	PRC	RMB100 million	–	100	Note (iii)
Beijing GOME Logistics Equipment Co., Ltd. (i) 北京國美物流有限公司	PRC	RMB10 million	–	100	Note (iv)
Beijing Dingrui Property Co., Ltd. (i) 北京鼎銳置業有限公司	PRC	RMB10 million	–	100	Property holding
Anshan GOME Electrical Appliances Co., Ltd. (i) 鞍山國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Daqing GOME Electrical Appliances Co., Ltd. (i) 大慶國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Dalian Xinxundian Trading Co.,Ltd. (i) 大連新訊點貿易有限公司	PRC	RMB500,000	–	100	Note (vii)

Notes to Financial Statements

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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
Datong Century North Electrical Appliances Co., Ltd. (i) 大同世紀北方電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Guizhou GOME Electrical Appliances Co., Ltd. (i) 貴州國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Henan GOME Electrical Appliances Co., Ltd. (i) 河南省國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Hebei GOME Electrical Appliances Co., Ltd. (i) 河北國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Heilongjiang Black Swan Home Appliances Co., Ltd. (i) 黑龍江黑天鵝家電有限公司	PRC	RMB10 million	–	100	Note (iii)
Jilin GOME Electrical Appliances Co., Ltd. (i) 吉林國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Jiangxi Pengrun GOME Electrical Appliances Co., Ltd.(i) 江西鵬潤國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Ningbo Zhe GOME Electrical Appliances Co., Ltd. (i) 寧波浙國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Nanning GOME Electrical Appliances Co., Ltd. (i) 南寧國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Nanning GOME Logistics Co., Ltd. (i) 南寧國美物流有限公司	PRC	RMB6 million	–	100	Note (iv)

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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
Shanghai GOME Electrical Appliances Co., Ltd. (i) 上海國美電器有限公司	PRC	RMB40 million	–	100	Note (iii)
Shanxi GOME Electrical Appliances Co., Ltd. (i) 山西國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Wuxi GOME Electrical Appliances Co., Ltd. (i) 無錫國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Xiamen GOME Electrical Appliances Co., Ltd. (i) 廈門國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Xinjiang GOME Electrical Appliances Co., Ltd. (i) 新疆國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Zhejiang GOME Electrical Appliances Co., Ltd. (i) 浙江國美電器有限公司	PRC	RMB8 million	–	100	Note (iii)
Beijing Hengxin Damei Trading Co., Ltd. (i) 北京恒信達美商貿有限公司	PRC	RMB5 million	–	100	Note (iv)
Tianjin GOME Hengxin Logistics Co., Ltd. (i) 天津國美恒信物流有限公司	PRC	RMB20 million	–	100	Note (iii)
Beijing GOME Communication Equipment Co., Ltd. (i) 北京國美通訊設備有限公司	PRC	RMB50 million	–	100	Note (iii)
Tianjin Shengyuan Pengda Logistics Co., Ltd. (i) 天津盛源鵬達物流有限公司	PRC	RMB50 million	–	100	Note (iv)

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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
Dalian GOME Electrical Appliances Co., Ltd. (i) 大連國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Tianjin GOME Zhansheng Logistics Co., Ltd. (i) 天津國美戰聖物流有限公司	PRC	RMB20 million	–	100	Note (iv)
Wuhai GOME Electrical Appliances Co., Ltd. (i) 烏海國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Nanchang GOME Electrical Appliances Co., Ltd. (i) 南昌國美電器有限公司	PRC	RMB1 million	–	100	Note (iii)
Jiangyin GOME Electrical Appliances Co., Ltd. (i) 江陰國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Luohe GOME Electrical Appliances Co., Ltd. (i) 漯河國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Beijing GOME Baotou Electrical Appliance Co., Ltd. (i) 北京國美包頭電器有限公司	PRC	RMB10 million	–	100	Note (iii)
GOME Australia PTY. Ltd.	Australia	AUD1 million	–	51	Note (ix)
Chongqing Jiagou Co., Ltd. 重慶佳購科技有限公司	PRC	US$5 million	–	100	Note (xi)
Chongqing Weijie Commerce Co., Ltd. 重慶微界商貿有限公司	PRC	RMB10 million	–	100	Note (v)
Chongqing GOME Huashang Commerce Co., Ltd. 重慶國美華尚商貿有限公司	PRC	RMB10 million	–	100	Note (v)
Shanghai GOME E-commerce Co., Ltd. 上海國美電子商務有限公司	PRC	RMB50 million	–	100	Note (ix)

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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 and procurement 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

(x) Provision of storage and delivery services

(xi) Provision of IT development and services

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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain other investments which are classified as available-for-sale financial assets and equity investments at fair value through profit or loss 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 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

(b) rights arising from other contractual arrangements; and

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

The 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 above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained 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 new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

Except for the amendments to IFRS 10, IFRS 12 and IAS 28 (2011), amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 41, amendments to IAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

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

(b) 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 a 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 applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to IFRSs 2012-2014 Cycle* issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IAS 40	*Transfers of Investment Property*[2]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2014-2016 Cycle*[5]

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

1 Effective for annual periods beginning on or after 1 January 2017

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for annual periods beginning on or after 1 January 2019

4 No mandatory effective date yet determined but available for adoption

5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

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

The IASB issued amendments to IFRS 2 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

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

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 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 IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IFRS 15 establishes a new five-step model to account for 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 IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact on IFRS 15 upon adoption.

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

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

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

IFRIC 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) The beginning of the reporting period in which the entity first applies the interpretation or (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS. The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. The Group expects to adopt the amendments from 1 January 2018.

Amendments to IAS 40 clarifies when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed. The amendments will eliminate diversity in practice. The Group expects to adopt the amendments from 1 January 2018.

Annual Improvements to IFRS Standards 2014-2016 Cycle issued in December 2016 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* deletes short-term exemptions for first-time adopters. Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The Group expects to adopt the amendments from 1 January 2018.

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

- IAS 28 *Investments in Associates and Joint Ventures* clarifies that measuring investees at fair value through profit or loss is an investment-by-investment choice. The amendments clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. The Group expects to adopt the amendments from 1 January 2018.

- IFRS 12 *Disclosure of Interests in Other Entities* clarifies the scope of the disclosure requirements in IFRS 12. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from 1 January 2017 and must be applied retrospectively. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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.

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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 is measured at fair value with changes in fair value recognised in profit or loss. 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.

Fair value measurement

The Group measures its investment properties, certain other investments which are classified as available-for-sale financial assets 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent 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);
- (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); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property and equipment and depreciation *(Continued)*

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 are stated at cost less any impairment loss, and are 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.

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, changes in the values of the properties are dealt with as movements in the asset revaluation reserve. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred to develop intangible assets is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure during the development. Development expenditure which does not meet these criteria is expensed when incurred.

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, available-for-sale financial investments and financial assets at fair value through profit and loss, 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments *(Continued)*

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.

Derecognition of financial assets

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

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.

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 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.

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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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

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

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.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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 consolidated 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

- Income from suppliers comprising promotion income, management fee income, display space leasing fees and product listing fees is recognised according to the underlying contract terms when these services have been 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 33 to the financial statements.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market condition or non-vesting condition, the transactions are treated as vesting irrespective of whether 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

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

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

Pursuant to the relevant PRC laws and regulations, the employees of the Group's PRC subsidiaries are required to participate in a central pension scheme operated by the local municipal government. 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional 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 translation 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 is 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 RMB 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 their 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 arrangements – 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.

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 has controlled Dazhong Appliances since 2007 through the loan and the management agreement even though it did not own any equity interest or voting rights until 31 March 2016. 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 Appliances to affect the amount of the investor's returns. On 31 March 2016, the Group obtained the approval from the Ministry of Commerce of the PRC for the acquisition, which signified a formalised ownership of the Group in Dazhong Appliances.

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 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 2016 was RMB14,324,966,000 (2015: RMB7,145,117,000). Further details are given in note 15.

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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 2016 was RMB605,030,000 (2015: RMB599,832,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment of all non-financial assets at the end of each reporting period. 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.

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

Estimation uncertainty *(Continued)*

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 2016 was RMB13,027,000 (2015: RMB11,280,000). The amount of unrecognised tax losses at 31 December 2016 was RMB6,113,289,000 (2015: RMB5,287,938,000). Further details are given in note 21 to the financial statements.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2016, no impairment loss has been recognised for available-for-sale assets (2015: Nil). The carrying amount of available-for-sale assets was RMB1,007,046,000 (2015: RMB595,013,000).

Assessment of useful lives of property and equipment

The Group has estimated the useful lives of the property and equipment to be 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 2016 was RMB6,644,941,000 (2015: RMB4,393,245,000). Further details are given in note 13 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 network of retail stores of electrical appliances and consumer electronic products and online sale of electronic products 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, finance costs, gain or loss on equity investments at fair value through profit or loss and corporate and other unallocated expenses are excluded from this measurement.

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Segment liabilities exclude interest-bearing bank loans, tax payable, deferred tax liabilities and bonds payable as these liabilities are managed on a group basis.

	2016 RMB'000	2015 RMB'000
Segment revenue		
Sales to external customers	**76,695,025**	64,595,127
Segment results	**256,877**	1,620,470
Reconciliation:		
Bank interest income	**231,794**	253,999
Unallocated income	**2,351**	2,730
Finance costs	**(234,615)**	(43,226)
Gain/(loss) on equity investments at fair value through profit or loss	**10,207**	(206,758)
Corporate and other unallocated expenses	**(108,121)**	(50,464)
Profit before tax	**158,493**	1,576,751

	2016 RMB'000	2015 RMB'000
Segment assets	**40,785,747**	28,604,870
Reconciliation:		
Corporate and other unallocated assets	**21,016,382**	12,982,915
Total assets	**61,802,129**	41,587,785
Segment liabilities	**28,492,344**	22,911,066
Reconciliation:		
Corporate and other unallocated liabilities	**12,334,558**	1,988,357
Total liabilities	**40,826,902**	24,899,423
Other segment information		
Depreciation and amortisation	**786,767**	526,395
Capital expenditure*	**1,016,813**	566,786

* Capital expenditure consists of additions to property and equipment and other intangible assets.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

	2016 RMB'000	2015 RMB'000
Mainland China	**76,695,025**	64,595,127

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

(b) Non-current assets

	2016 RMB'000	2015 RMB'000
Mainland China	**24,007,736**	13,770,013
Hong Kong	**38,552**	34,377
	24,046,288	13,804,390

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

5. BUSINESS COMBINATION

(a) On 31 March 2016, the Group acquired 100% of the equity interests of Artway Development Limited and its subsidiaries (the "Target Group"), an unlisted group principally engaged in the retail sale of electrical appliances and consumer electronic products under the trademark "GOME Electrical Appliances" and related operations mainly in cities other than the designated cities of the PRC in which the Group already operates. The purchase consideration for the acquisition was made in the form of HK$1 billion of cash, issuance of 5.5 billion shares of the Company at a market price of HK$1.12 per share at the date of the acquisition and issuance of 2.5 billion warrants of the Company (note 35) at fair value of RMB227 million at the date of acquisition, which are exercisable into underlying shares of the Company at the initial exercise price of HK$2.15 per share.

5. BUSINESS COMBINATION *(Continued)*

(a) *(Continued)*

The fair values of the identifiable assets and liabilities of the Target Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property and equipment	2,133,987
Other intangible assets	229,740
Lease prepayments and deposits	63,625
Deferred tax assets	12,446
Inventories	2,821,624
Trade and bills receivables	44,795
Prepayments, deposits and other receivables	777,857
Due from related companies	1,621,322
Pledged deposits	1,069,336
Cash and cash equivalents	1,529,258
Trade and bills payables	(5,222,804)
Customers' deposits, other payables and accruals	(795,048)
Interest-bearing bank loans	(3,610,801)
Due to related companies	(900,383)
Tax payable	(272,324)
Deferred tax liabilities	(297,577)
Total identifiable net liabilities acquired at fair value	(794,947)
Goodwill arising on acquisition	6,987,869
Satisfied by:	
Cash	833,250
Issuance of the Company's warrants	226,852
Issuance of the Company's shares	5,132,820

An analysis of the cash flows in respect of the acquisition of the Target Group is as follows:

	RMB'000
Cash consideration	(833,250)
Cash and cash equivalents acquired	1,529,258
Net inflow of cash and cash equivalents	696,008

The Group incurred transaction costs of RMB21,885,000 for this acquisition. These transaction costs have been expensed and are included in other expense in the consolidated statement of profit or loss.

5. BUSINESS COMBINATION *(Continued)*

(a) *(Continued)*

Since the acquisition on 31 March 2016, the Target Group contributed revenue of RMB14,464 million and profit of RMB135 million to the Group for the year.

The goodwill recognised above is attributed to the expected synergies and other benefits from this acquisition. None of the recognised goodwill is expected to be deductible for income tax purposes.

(b) The principal activity of 騰達電器有限公司 ("Tengda Electrical Appliances Co., Ltd.") is the operation of retail stores for electrical appliances and consumer electronic products in Jiangxi Province in Mainland China (the "Tengda Business"). On 25 July 2016, the Group acquired the Tengda Business, which includes the operation of 62 retail stores and the related leasehold improvement and employees, for a cash consideration of RMB215 million.

The fair values of the acquired leasehold improvement and other identifiable net assets were considered to be not significant. The fair values of other identifiable assets of the Tengda Business as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Total identifiable net assets acquired at fair value	–
Goodwill arising on acquisition	214,966
Satisfied by:	
Cash	214,966

The goodwill recognised above is attributed to the expected synergies and other benefits from this acquisition of the Tengda Business. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of the Tengda Business is as follows:

	RMB'000
Cash consideration	214,966
Net outflow of cash and cash equivalents	214,966

Since the acquisition on 25 July 2016, the Tengda Business contributed revenue of RMB216 million and loss RMB26 million to the Group for the year.

Had the business combinations taken place at the beginning of the year, the revenue and the loss of the Group for the year would have been RMB80,318 million and RMB5 million, respectively.

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6. REVENUE, OTHER INCOME AND GAINS

Revenue 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	2016 RMB'000	2015 RMB'000
Revenue			
Sale of electrical appliances and consumer electronic products		**76,695,025**	64,595,127
Other income			
Income from suppliers, net		**389,405**	461,105
Management and purchasing service fees from the Target Group	*(i)*	**31,656**	250,000
Income from air-conditioner installation		**192,764**	149,188
Gross rental income		**297,474**	311,958
Government grants	*(ii)*	**177,079**	163,397
Other service fee income		**340,263**	271,270
Income from compensation		**104,037**	14,170
Other income from telecommunication service providers		**89,432**	171,963
Commission income from providing on-line platforms		**118,525**	123,484
Others		**99,163**	67,957
		1,839,798	1,984,492
Gains			
Fair value gain on investment properties	*14*	**5,198**	9,534
Fair value gain on derivative financial instruments		**109,121**	–
Fair value gains, net:			
Equity investments at fair value through profit or loss		**10,207**	–
		1,964,324	1,994,026

Notes:

(i) For the year ended 31 December 2016, the management service fees from the Target Group represented the transactions between the Group and the Target Group for the period from 1 January 2016 to 31 March 2016. For the purchasing service fee, the relevant agreement has not been renewed upon its expiry on 31 December 2015.

(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.

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7. PROFIT BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold		**66,318,216**	55,082,038
Depreciation	*13*	**723,993**	500,978
Amortisation of other intangible assets*	*16*	**39,700**	23,438
Amortisation of prepaid land lease payments		**23,074**	1,979
Loss on disposal of items of property and equipment***		**5,859**	7,957
Impairment of goodwill***		**22,986**	–
(Gain)/loss on equity investments at fair value through profit or loss		**(10,207)**	206,758
Minimum lease payments under operating leases		**4,360,033**	3,564,687
Impairment provision for items of property and equipment***	*13*	**37,852**	12,695
Fair value gain on derivative financial instruments		**(109,121)**	–
Foreign exchange differences, net		**35,418**	10,770
Auditors' remuneration			
– audit services		**7,811**	9,229
– non-audit services		**762**	877
Staff costs excluding directors' and chief executive's remuneration *(note 9)*:			
Wages, salaries and bonuses		**2,597,935**	2,119,882
Pension scheme contributions**		**615,472**	486,881
Social welfare and other costs		**77,402**	57,319
Equity-settled share option expense		**294**	1,686
		3,291,103	2,665,768
Gross rental income		**(297,474)**	(311,958)
Net fair value gain on investment properties	*14*	**(5,198)**	(9,534)

Notes:

* 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 2016, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2015: Nil).

*** These items are included in "Other expenses" in the consolidated statement of profit or loss.

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8. FINANCE (COSTS)/INCOME

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

	2016 RMB'000	2015 RMB'000
Finance costs:		
Interest on bank loans	**(27,739)**	(43,226)
Interest on bonds payable	**(206,876)**	–
	(234,615)	(43,226)
Finance income:		
Bank interest income	**231,794**	253,999

9. 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"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	**2,394**	2,640
Other emoluments:		
Salaries, allowances and other expenses	**1,743**	1,812
Equity-settled share option expense	**43**	216
Pension scheme contributions	**47**	43
	1,833	2,071

During the year 2009, certain directors and chief executive were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 33 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.

9. 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:

	Notes	2016 RMB'000	2015 RMB'000
Mr. Lee Kong Wai, Conway		**342**	402
Mr. Ng Wai Hung		**342**	402
Ms. Liu Hong Yu		**342**	399
Mr. Wang Gao	*(ii)*	**342**	167
Mr. Sze Tsai Ping, Michael	*(iii)*	**–**	232
Mr. Chan Yuk Sang	*(iii)*	**–**	232
		1,368	1,834

Notes:

(i) There was no other emolument payable to the independent non-executive directors during the year (2015: Nil).

(ii) Mr. Wang Gao was appointed as an independent non-executive director of the Company with effect from 24 June 2015.

(iii) Mr. Sze Tsai Ping, Michael and Mr. Chan Yuk Sang retired as independent non-executive directors of the Company on 24 June 2015.

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9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

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

2016	Fees RMB'000	Salaries, allowances and other expenses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive director:					
Mr. Zou Xiao Chun	–	342	–	–	342
	–	342	–	–	342
Non-executive directors:					
Mr. Zhang Da Zhong	342	–	–	–	342
Ms. Huang Xiu Hong	342	–	–	–	342
Mr. Yu Sing Wong	342	–	–	–	342
	1,026	–	–	–	1,026
Chief executive:					
Mr. Wang Jun Zhou	–	1,401	43	47	1,491
	1,026	1,743	43	47	2,859

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

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

2015	Notes	Fees RMB'000	Salaries, allowances and other expenses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive director:						
Mr. Zou Xiao Chun		–	322	–	–	322
		–	322	–	–	322
Non-executive directors:						
Mr. Zhu Jia	*(i)*	35	–	–	–	35
Ms. Wang Li Hong	*(i)*	35	–	–	–	35
Mr. Zhang Da Zhong		402	–	–	–	402
Ms. Huang Xiu Hong	*(ii)*	167	–	–	–	167
Mr. Yu Sing Wong	*(ii)*	167	–	–	–	167
		806	–	–	–	806
Chief executive:						
Mr. Wang Jun Zhou		–	1,490	216	43	1,749
		806	1,812	216	43	2,877

Notes:

(i) Mr. Zhu Jia and Ms. Wang Li Hong resigned as non-executive directors of the Company on 28 January 2015.

(ii) Ms. Huang Xiu Hong and Mr. Yu Sing Wong were appointed as non-executive directors of the Company with effect from 24 June 2015.

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9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(c) Five highest paid individuals

The five highest paid individuals during the year included the chief executive (2015: the chief executive). Details of the chief executive's remuneration are set out above. Details of the remuneration for the year of the remaining four (2015: four) highest paid individuals who are neither a director nor the chief executive of the Group are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and other expenses	**5,663**	5,542
Pension scheme contributions	**162**	154
Equity-settled share option expense	**97**	509
	5,922	6,205

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

	Number of individuals	
	2016	2015
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,282,257 to RMB1,709,675)	**4**	4

10. PENSION SCHEMES

All of the Group's PRC subsidiaries 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 2016 and 2015.

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$18,000 and 5% of the employees' salaries for the years ended 31 December 2016 and 2015.

The Group's contributions to pension schemes for the year ended 31 December 2016 amounted to approximately RMB615,519,000 (2015: RMB486,924,000).

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11. INCOME TAX EXPENSE

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

	2016 **RMB'000**	2015 RMB'000
Current income tax	**230,455**	651,977
Deferred income tax *(note 21)*	**(17,767)**	(11,720)
Total tax charge for the year	**212,688**	640,257

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% (2015: 25%) on their respective taxable income. During the year, 47 entities (2015: 26 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

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

No provision for Hong Kong profits tax has been made for the Group for the year ended 31 December 2016 (2015: RMB41,000).

11. INCOME TAX EXPENSE *(Continued)*

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:

	2016 Hong Kong RMB'000	%	Mainland China RMB'000	%	Total RMB'000
(Loss)/profit before tax	**(83,983)**		**242,476**		**158,493**
Income tax at the statutory tax rate	**(13,857)**	**16.5**	**60,619**	**25.0**	**46,762**
Tax effect of preferential tax rates	**–**		**(43,082)**		**(43,082)**
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	**–**		**23,650**		**23,650**
Income not subject to tax	**(19,349)**		**–**		**(19,349)**
Expense not deductible for tax	**22,084**		**8,759**		**30,843**
Tax losses utilised from previous years	**–**		**(109,824)**		**(109,824)**
Tax losses not recognised	**11,122**		**272,566**		**283,688**
Tax charge at the Group's effective rate	**–**		**212,688**		**212,688**

	2015 Hong Kong RMB'000	%	Mainland China RMB'000	%	Total RMB'000
(Loss)/profit before tax	(142,026)		1,718,777		1,576,751
Income tax at the statutory tax rate	(23,434)	16.5	429,694	25.0	406,260
Tax effect of preferential tax rates	–		(68,015)		(68,015)
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	–		48,319		48,319
Income not subject to tax	(3,537)		(28,479)		(32,016)
Expense not deductible for tax	9,157		89,574		98,731
Tax losses utilised from previous years	(5)		(77,180)		(77,185)
Tax losses not recognised	17,860		246,303		264,163
Tax charge at the Group's effective rate	41		640,216		640,257

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11. INCOME TAX EXPENSE *(Continued)*

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 2016, save for the withholding tax provided on the dividends declared out of the current year's profits by the Group's subsidiaries established in Mainland China, no deferred tax has been recognized for withholding taxes that would be payable on the remaining unremitted earnings in these subsidiaries that are subject to withholding taxes. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized for approximately RMB8,068,348,000 at 31 December 2016 (2015: RMB7,943,310,000).

12. 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 20,797,082,000 (2015: 16,960,613,000) 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.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 as the impact of the warrants and share options outstanding had no dilutive effect on the basic earnings per share amounts presented.

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

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	**325,139**	1,207,963

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12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(Continued)*

	Number of shares	
	2016	2015
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**20,797,082**	16,960,613

13. PROPERTY AND EQUIPMENT

	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 2016						
At 31 December 2015 and 1 January 2016:						
Cost	3,701,118	2,071,229	1,671,219	91,913	166,313	7,701,792
Accumulated depreciation and impairment	(802,847)	(1,384,750)	(1,045,785)	(75,165)	–	(3,308,547)
Net carrying amount	2,898,271	686,479	625,434	16,748	166,313	4,393,245
At 1 January 2016, net of accumulated depreciation and impairment:	2,898,271	686,479	625,434	16,748	166,313	4,393,245
Additions	301,501	393,403	114,098	10,675	197,136	1,016,813
Acquisition of subsidiaries	1,738,558	338,977	51,238	5,214	–	2,133,987
Disposals	–	(100,683)	(32,917)	(3,659)	–	(137,259)
Impairment	–	(37,852)	–	–	–	(37,852)
Depreciation provided during the year	(150,877)	(341,826)	(225,774)	(5,516)	–	(723,993)
Transfers from construction in progress	–	–	174,505	–	(174,505)	–
At 31 December 2016, net of accumulated depreciation and impairment	4,787,453	938,498	706,584	23,462	188,944	6,644,941
At 31 December 2016:						
Cost	5,915,249	2,994,261	2,078,640	108,854	188,944	11,285,948
Accumulated depreciation and impairment	(1,127,796)	(2,055,763)	(1,372,056)	(85,392)	–	(4,641,007)
Net carrying amount	4,787,453	938,498	706,584	23,462	188,944	6,644,941

13. PROPERTY AND EQUIPMENT *(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 2015						
At 1 January 2015:						
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
At 1 January 2015, net of accumulated depreciation and impairment	3,015,559	669,112	622,913	16,395	93,255	4,417,234
Additions	–	238,557	159,667	11,474	157,088	566,786
Disposals	–	(72,900)	(12,840)	(2,288)	–	(88,028)
Impairment	–	(12,695)	–	–	–	(12,695)
Depreciation provided during the year	(128,214)	(135,595)	(228,336)	(8,833)	–	(500,978)
Transfers from investment properties	10,926	–	–	–	–	10,926
Transfers from construction in progress	–	–	84,030	–	(84,030)	–
At 31 December 2015, net of accumulated depreciation and impairment	2,898,271	686,479	625,434	16,748	166,313	4,393,245
At 31 December 2015:						
Cost	3,701,118	2,071,229	1,671,219	91,913	166,313	7,701,792
Accumulated depreciation and impairment	(802,847)	(1,384,750)	(1,045,785)	(75,165)	–	(3,308,547)
Net carrying amount	2,898,271	686,479	625,434	16,748	166,313	4,393,245

Certain of the buildings of the Group in Mainland China were pledged as security for bills payable (note 28) and interest-bearing bank loans (note 30) of the Group as at 31 December 2016. The aggregate carrying value of the Group's pledged buildings attributable to the Group as at 31 December 2016 amounted to RMB1,948,829,000 (31 December 2015: RMB1,164,024,000).

The recoverable amount was Nil for those impaired assets as at 31 December 2015 and 31 December 2016.

14. INVESTMENT PROPERTIES

	2016 **RMB'000**	2015 RMB'000
Carrying amount at 1 January	**599,832**	601,224
Net gain from a fair value adjustment	**5,198**	9,534
Transfer to owner-occupied properties *(note 13)*	**–**	(10,926)
Carrying amount at 31 December	**605,030**	599,832

Investment properties comprise commercial properties in Mainland China and an industrial property and a car park in Hong Kong that are leased to third parties.

Investment properties are stated at fair value, which has been determined with reference to the valuations performed by Beijing Northern Yashi Assets Appraisal Co., Ltd. and B.I. Appraisals Limited, independent firms of professionally qualified valuers, using the income approach and direct comparison approach, as at 31 December 2016. 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 2016, investment properties of approximately RMB34,885,000 (31 December 2015: RMB30,412,000) are located in Hong Kong under medium term leases and investment properties of approximately RMB570,145,000 (31 December 2015: RMB569,420,000) 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 28) and interest-bearing bank loans (note 30) of the Group as at 31 December 2016. The aggregate fair value of the Group's the pledged investment properties as at 31 December 2016 amounted to RMB481,397,000 (31 December 2015: RMB369,986,000).

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14. 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 2016 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	**–**	**–**	**570,145**	**570,145**
Industrial property and car park	**–**	**–**	**34,885**	**34,885**
	–	**–**	**605,030**	**605,030**

	Fair value measurement as at 31 December 2015 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	–	–	569,420	569,420
Industrial property and car park	–	–	30,412	30,412
	–	–	599,832	599,832

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 (2015: Nil).

14. 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 car park RMB'000
Carrying amount at 1 January 2015	575,190	26,034
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	5,156	4,378
Transfer to owner-occupied properties	(10,926)	–
Carrying amount at 31 December 2015 and 1 January 2016	569,420	30,412
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	**725**	**4,473**
Carrying amount at 31 December 2016	**570,145**	**34,885**

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 2016	Range 2015
Commercial properties	Income approach	Estimated rental value (RMB per square metre and per month)	**37.5 – 285.0**	37.5 – 240.0
		Rental growth (per annum)	**1.5% – 2%**	2% – 3%
		Long term vacancy rate	**3% – 5%**	3% – 5%
		Discount rate	**6%**	6%

	Valuation technique	Significant unobservable inputs	Unit price 2016	Unit price 2015
Industrial property and car park	Direct comparison approach	Market value (RMB per square metre)	**26,353**	22,974

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14. 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 flows 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 an opposite change in the discount rate and 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 licence 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.

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15. GOODWILL

	2016 RMB'000	2015 RMB'000
At 1 January		
Cost	**7,170,907**	7,170,907
Accumulated impairment	**(25,790)**	(25,790)
Net carrying amount	**7,145,117**	7,145,117
Cost at 1 January, net of accumulated impairment	**7,145,117**	7,145,117
Acquisition of the Target Group and the Tengda Business	**7,202,835**	-
Impairment during the year	**(22,986)**	-
At 31 December	**14,324,966**	7,145,117
At 31 December		
Cost	**14,373,742**	7,170,907
Accumulated impairment	**(48,776)**	(25,790)
Net carrying amount	**14,324,966**	7,145,117

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15. GOODWILL *(Continued)*

Impairment testing of goodwill

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

	2016 RMB'000	2015 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 Co., Ltd. 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
Artway Development Limited 藝偉發展有限公司	**6,987,869**	–
Tengda Technology Co. Ltd 江西騰達科技有限公司	**214,966**	–
	14,373,742	7,170,907
Impairment	**(48,776)**	(25,790)
	14,324,966	7,145,117

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections are prepared based on financial budgets as approved by management which cover a period of five years. The discount rate applied to the cash flow projections is 13.10% (2015: 13.34%).

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15. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2015: 3%).

The impairment was mainly related to Shenzhen GOME Electrical Appliances Company Limited and Guangzhou GOME Electrical Appliances Company Limited and Huihai in the amount of RMB22,986,000 and RMB15,790,000, respectively.

Key assumptions used in the value in use calculations

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

Store revenue:	the basis 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 profit margins are based on the historical margin achieved in the past.
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 after tax and reflect management's estimate of the risks specific to each unit. In determining appropriate discount rates for each unit, regard has been given to the applicable borrowing rate of the Group in the current year.

Sensitivity to changes in assumptions

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

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16. OTHER INTANGIBLE ASSETS

	Trademarks RMB'000 (i)
31 December 2016	
At 31 December 2015 and 1 January 2016:	
Cost	**440,959**
Accumulated amortisation	**(198,596)**
Net carrying amount	**242,363**
Cost at 1 January 2016, net of accumulated amortisation	**242,363**
Acquisition of the Target Group	**229,740**
Amortisation provided during the year	**(39,700)**
At 31 December 2016	**432,403**
At 31 December 2016:	
Cost	**692,607**
Accumulated amortisation	**(260,204)**
Net carrying amount	**432,403**
31 December 2015	
At 31 December 2014 and 1 January 2015:	
Cost	440,959
Accumulated amortisation	(175,158)
Net carrying amount	265,801
Cost at 1 January 2015, net of accumulated amortisation	265,801
Amortisation provided during the year	(23,438)
At 31 December 2015	242,363
At 31 December 2015:	
Cost	440,959
Accumulated amortisation	(198,596)
Net carrying amount	242,363

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16. OTHER INTANGIBLE ASSETS *(Continued)*

(i) The cost mainly represents the fair value of the trademarks 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, the fair value of the trademark arising from the acquisition of the retailing business of Dazhong Appliances of RMB284,319,000 and the fair value of the trademark arising from the acquisition of the Target Group of RMB229,740,000, which are amortised on the straight-line basis over management's estimate of their useful lives of 10 years, 20 years, 20 years and 10 years, respectively.

17. INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	**17,000**	–

The Group's shareholdings in the associates all comprise equity shares held through wholly-owned subsidiaries of the Company.

As the associates were newly registered near the end of year, there was no profit or comprehensive income during the year.

18. OTHER INVESTMENTS

	Notes	**2016 RMB'000**	2015 RMB'000
Equity investments in Mainland China, at fair value			
Investment in Sanlian	*(i)*	**685,385**	595,013
Investment in MTC	*(ii)*	**300,730**	–
Equity investment, at cost	*(iii)*	**20,931**	–
		1,007,046	595,013

Notes:

(i) The balance as at 31 December 2016 represented the fair value of the Group's investments in 39,987,400 shares, representing approximately 15.84% 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 2016 and 31 December 2015. After initial recognition, the available-for-sale financial assets are measured at fair value, with gains or losses recognised in other comprehensive income until the investments are 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 2016 (31 December 2015: two). 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 Sanlian and thus the Group does not have control or significant influence over Sanlian.

As at 31 December 2016, the fair value of these investments was based on the quoted market price of the listed shares, which was RMB17.14 (31 December 2015: RMB14.88) per share. During 2016, the gain in respect of the Group's other investments recognised in other comprehensive income amounted to RMB90,372,000 (2015: RMB212,992,000).

During 2016, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to Nil (2015: RMB28,726,100). The sales to Sanlian were made according to the published prices and conditions offered to other customers of the Group.

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18. OTHER INVESTMENTS *(Continued)*

Notes: (Continued)

(ii) During 2016, the Group subscribed 30,193,814 shares of 深圳兆馳股份有限公司 ("Shenzhen MTC Co., Ltd." or "MTC") with a consideration of RMB370,780,000 representing approximately 1.67% of the issued shares. MTC is a company established in the PRC and listed on the Shenzhen Stock Exchange. The Group classified these investments as available-for-sale financial assets at 31 December 2016. After initial recognition, the available-for-sale financial assets are measured at fair value, with gains or losses recognised in other comprehensive income until the investments are 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.

As at 31 December 2016, the fair value of these investments was based on the quoted market price of the listed shares, which was RMB9.96 per share. During 2016, the loss in respect of the Group's other investments recognised in other comprehensive income amounted to RMB70,050,000.

(iii) As at 31 December 2016, an unlisted equity investment with a carrying amount of RMB20,931,000 (2015: Nil) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

19. LEASE PREPAYMENTS AND DEPOSITS

	Notes	2016 RMB'000	2015 RMB'000
Prepaid land lease payments	*(i)*	**1,253,799**	1,149,667
Rental prepayments and deposits	*(ii)*	**268,149**	274,166
		1,521,948	1,423,833

Notes:

(i) Prepaid land lease payments

	Note	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January		**1,177,679**	36,930
Additions		**131,283**	1,142,728
Recognised during the year		**(23,074)**	(1,979)
Carrying amount at 31 December		**1,285,888**	1,177,679
Current portion included in prepayments, deposits and other receivables.	*24*	**(32,089)**	(28,012)
Non-current portion		**1,253,799**	1,149,667

The leasehold land is held under medium term leases and located in Mainland China.

(ii) The balances at 31 December 2016 and 2015 represented the non-current portion of rental prepayments and deposits.

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20. ENTRUSTED LOANS

	2016 RMB'000	2015 RMB'000
Entrusted loans	**500,000**	–

The entrusted loans are provided to Sanlian, repayable in full in October 2019 and bears interest at 6% per annum which is comparable to the market interest rate.

21. DEFERRED TAX

	Note	Balance at 1 January 2016 RMB'000	Acquisition of the Target Group RMB'000	Recognised in the consolidated statement of profit or loss RMB'000	Balance at 31 December 2016 RMB'000
Deferred tax assets:					
Tax losses	*(i)*	**11,280**	**12,446**	**(10,699)**	**13,027**
Fair value adjustment on equity investments at fair value through profit or loss		**–**	**–**	**14,368**	**14,368**
Fair value adjustment on investment properties		**6,047**	**–**	**(4)**	**6,043**
Fair value adjustment on transfer of own-occupied properties to investment properties		**22,813**	**–**	**–**	**22,813**
		40,140	**12,446**	**3,665**	**56,251**
Deferred tax liabilities:					
Fair value adjustment arising from acquisition of subsidiaries		**99,372**	**297,577**	**(14,279)**	**382,670**
Fair value adjustment on investment properties		**21,096**	**–**	**177**	**21,273**
Fair value adjustment on transfer of own-occupied properties to investment properties		**39,155**	**–**	**–**	**39,155**
		159,623	**297,577**	**(14,102)**	**443,098**

21. DEFERRED TAX *(Continued)*

	Note	Balance at 1 January 2015 RMB'000	Recognised in the consolidated statement of profit or loss RMB'000	Balance at 31 December 2015 RMB'000
Deferred tax assets:				
Tax losses	*(i)*	5,467	5,813	11,280
Fair value adjustment on investment properties		3,515	2,532	6,047
Fair value adjustment on transfer of owner-occupied properties to investment properties		22,813	–	22,813
		31,795	8,345	40,140
Deferred tax liabilities:				
Fair value adjustment arising from acquisition of subsidiaries		106,568	(7,196)	99,372
Fair value adjustment on investment properties		17,275	3,821	21,096
Fair value adjustment on transfer of own-occupied properties to investment properties		39,155	–	39,155
		162,998	(3,375)	159,623

Note:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB684 million (2015: RMB617 million), that are available indefinitely, and in the PRC of RMB5,429 million (2015: RMB4,671 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 2016, save for the withholding tax provided on the dividends declared out of the current year's profits by the Group's subsidiaries established in Mainland China, no deferred tax liabilities has been recognised for withholding taxes that would be payable on the remaining unremitted earnings in these subsidiaries that are subject to withholding taxes. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised for approximately RMB8,068,348,000 at 31 December 2016 (2015: RMB7,943,310,000).

There are income tax consequences attaching to the payments of dividends by the Company to its shareholders.

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22. INVENTORIES

	2016 RMB'000	2015 RMB'000
Merchandise for resale	**11,368,631**	10,026,078
Consumables	**237,327**	149,926
	11,605,958	10,176,004

As at 31 December 2016, the Group's inventories amounting to RMB567 million (31 December 2015: RMB537 million) were pledged as security for the Group's bills payable (note 28).

23. 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:

	2016 RMB'000	2015 RMB'000
Outstanding balances, aged:		
Within 3 months	**126,513**	143,538
3 to 6 months	**28,284**	38,281
6 months to 1 year	**8,111**	7,620
	162,908	189,439

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**63,257**	71,769
Less than 3 months past due	**77,398**	90,910
Over 3 months past due	**22,253**	26,760
	162,908	189,439

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23. TRADE AND BILLS RECEIVABLES *(Continued)*

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.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2016 RMB'000	2015 RMB'000
Prepayments		**995,894**	831,985
Advances to suppliers		**2,478,959**	2,432,939
Other deposits and receivables		**1,224,259**	785,821
Receivables from Wuhan Yinhe	*(i)*	**–**	166,586
Current portion of prepaid land lease payments	*19*	**32,089**	28,012
		4,731,201	4,245,343

Note:

(i) This amount relates to a deposit for a property purchase from 武漢銀鶴置業有限公司 ("Wuhan Yinhe Property Co., Ltd." or "Wuhan Yinhe"") in Wuhan in 2008 for approximately RMB107 million. Wuhan Yinhe had since defaulted and failed to complete the delivery of the property in Wuhan (the "Property") to the Group. The Group took legal action against Wuhan Yinhe and the Intermediate People's Court of Huanggang City in Hubei province had ordered Wuhan Yinhe to repay the deposit plus interest and other damages to the Group for an aggregate amount of approximately RMB167 million in 2009 (the "Award").

During the year ended 31 December 2016, Hubei Higher People's Court granted an order that the Property to be transferred to the Group. The Group was required to pay an additional amount of RMB53 million which represented the fair valuation of the Property, less the amount of Award owed to the Group and additional compensation and penalty to be borne by Wuhan Yinhe. As at 31 December 2016, the Group had paid RMB30 million of the required amount. The remaining amount will be paid once the Group acquired the legal title of the Property.

25. DUE FROM/TO RELATED COMPANIES

Due from Related Companies

		2016 RMB'000	2015 RMB'000
Management and purchasing service fee receivables from the Target Group*	*40(a)(ii)*	**–**	43,048
Other receivables from related companies**		**239,392**	146,646
		239,392	189,694

* The balance mainly represented the management and purchasing service fees due from the Target Group. The aforesaid balance was interest-free, unsecured and has no fixed terms of repayment.

Due to Related Companies

		2016 RMB'000	2015 RMB'000
Payables to the Target Group		**–**	754,058
Payables to the GOME Xinda	*40(a)(v)*	**131,852**	–
Payables to related companies**		**529,575**	274,091
		661,427	1,028,149

** These balances were interest-free, unsecured and have no fixed terms of repayment.

26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB'000	2015 RMB'000
Listed equity investments, at market value	**1,333,529**	1,029,142

During the year, the Group had made an additional investments of approximately RMB281 million in stock markets. These equity investments were classified as financial assets designated upon initial recognition as at fair value through profit or loss by management and measured at market value. As at the date of approval of the financial statements, the market value of these equity investments was RMB1,451 million.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**12,603,870**	6,835,713
Time deposits	**6,015,686**	4,482,907
	18,619,556	11,318,620
Less: Pledged time deposits for bills payable	**(4,679,204)**	(3,880,903)
Pledged time deposits for interest-bearing bank loans	**(703,600)**	–
	(5,382,804)	(3,880,903)
Cash and cash equivalents	**13,236,752**	7,437,717

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB17,669,381,000 (31 December 2015: RMB11,014,524,000). 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 earn interest at floating rates based on daily bank deposit rates. Short term deposits of the Group 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.

28. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**8,529,553**	6,375,469
Bills payable	**15,368,853**	12,915,462
	23,898,406	19,290,931

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 follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**15,185,137**	10,976,395
3 to 6 months	**7,569,643**	7,211,206
Over 6 months	**1,143,626**	1,103,330
	23,898,406	19,290,931

The Group's bills payable are secured by the pledge of certain of the Group's:

(i) time deposits (note 27);

(ii) inventories (note 22);

(iii) buildings (note 13); and

(iv) investment properties (note 14).

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

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29. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Customers' deposits	**610,920**	448,289
Deferred revenue *(note)*	**134,386**	79,411
Other payables and accruals	**3,187,205**	2,064,286
	3,932,511	2,591,986

Note:

Deferred revenue represents the deferred of certain revenue amounts on sales transactions made to customers under the Group's customer loyalty points programme, and is released to the consolidated statement of profit or loss upon the customer's redemption of the loyalty points or upon the expiry date of the loyalty points. A reconciliation of the deferred revenue is as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**79,411**	78,172
Acquisition of the Target Group	**29,534**	–
Additions during the year	**885,659**	772,539
Release upon redemption	**(733,230)**	(707,985)
Release upon expiry	**(126,988)**	(63,315)
At 31 December	**134,386**	79,411

30. INTEREST-BEARING BANK LOANS

	2016 RMB'000	2015 RMB'000
Current:		
Bank loans – secured	**520,164**	971,512
Non-current:		
Bank loans – secured	**1,470,050**	–
	1,990,214	971,512

30. INTEREST-BEARING BANK LOANS *(Continued)*

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank loans		
Within one year or on demand	**520,164**	971,512
In the second year	**1,470,050**	–
	1,990,214	971,512

The bank loans as at 31 December 2016 comprised a bank loan of US$286,490,000 (equivalent to RMB1,987,235,000) bearing interest at 3-month LIBOR plus 0.7%-0.9% and a bank loan of JPY50,000,000 (equivalent to RMB2,979,000) bearing interest at a fixed rate of 0.53%. Certain of the bank loans are secured by the Group's buildings (note 13) and investment properties (note 14).

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

31. BONDS PAYABLE

On 7 January 2016, 28 January 2016 and 10 May 2016, the Group issued bonds at par values of RMB3,000 million, RMB300 million and RMB1,700 million on the Shanghai Stock Exchange, which are repayable on 7 January 2022, 28 January 2022 and 10 May 2022, respectively. These bonds could be redeemed by the holder and the earliest repayment dates are 7 January 2019, 28 January 2019 and 10 May 2019, respectively. On 8 December 2016, the Group issued non-public bonds at par values of RMB4,000 million, which is repayable on 8 December 2022. The bonds could be redeemed by the holder and the earliest repayment date is 8 December 2018. The interests are paid on annual basis.

After initial recognition, these bonds are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is calculated by taking into account transaction costs that are an integral part of the effective interest rate. The interest expense calculated based on the effective interest rate was RMB206,876,000 which was included in finance costs of the consolidated statement of profit or loss.

Movements of the bonds payable are as follows:

	RMB'000
Nominal value of the bonds issued	9,000,000
Direct Transaction costs	(165,233)
Liabilities at the issuance date	8,834,767
Interest expenses on the bonds	206,876
Less: interest to be paid within one year	(192,158)
Included under non-current liabilities as at 31 December 2016	8,849,485

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32. ISSUED CAPITAL

Shares	2016 HK$'000	2015 HK$'000
Issued and fully paid:		
21,967,465,422 (2015: 16,961,573,422) ordinary shares	**549,187**	424,040

A summary of movements in the Company's share capital is as follows:

Shares	Notes	Number of shares '000	HK$'000	Equivalent to RMB'000
At 1 January 2015		16,959,228	423,981	423,221
Share options exercised		2,345	59	47
At 31 December 2015 and 1 January 2016		16,961,573	424,040	423,268
Issue of shares	*(i)*	5,500,000	137,500	114,572
Shares repurchased	*(ii)*	(494,108)	(12,353)	(10,531)
At 31 December 2016		21,967,465	549,187	527,309

Notes:

(i) 5.5 billion shares were issued for the acquisition of the Target Group at a market price of HK$1.12 per share at date of acquisition.

(ii) The Company repurchased 494,108,000 of its shares on the Stock Exchange for a total consideration of RMB393,398,000. The purchased shares were cancelled during the year and this cancellation resulted in the decrease of the issued shares of RMB10,531,000 and share premium of RMB382,867,000.

33. 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.

33. SHARE OPTION SCHEME *(Continued)*

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.

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.

Pursuant to the board of directors' resolution dated 11 November 2016, the board approved the extension of the exercise period to 15 November 2017.

33. SHARE OPTION SCHEME *(Continued)*

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

	2016 Weighted average exercise price HK$ per share	**2016** Number of options '000	2015 Weighted average exercise price HK$ per share	2015 Number of options '000
At 1 January	**1.90**	**91,077**	1.90	96,091
Exercised during the year	**1.90**	**–**	1.90	(2,345)
Expired during the year	**1.90**	**(11,532)**	1.90	(2,669)
At 31 December	**1.90**	**79,545**	1.90	91,077

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

2016 Number of options '000	**Exercise price*** HK$ per share	**Exercise period**
79,545	1.90	On or before 15 November 2017

2015 Number of options '000	Exercise price* HK$ per share	Exercise period
91,077	1.90	On or before 15 November 2016

* 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.

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33. SHARE OPTION SCHEME *(Continued)*

A Share option expense of RMB337,000 was recognised during the year ended 31 December 2016 (2015: RMB1,902,000). There were no share options exercised during the year.

At the end of the reporting period, the Company had 79,545,000 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 79,545,000 additional ordinary shares of the Company and additional share capital of HK$1,989,000 (equivalent to approximately RMB1,779,000) and share premium of HK$149,147,000 (equivalent to approximately RMB133,412,000) (before issuance costs).

At the date of approval of these consolidated financial statements, the Company had 76,886,000 share options outstanding under the Scheme, which represented approximately 0.35% of the Company's shares in issue as at that date.

34. TREASURY SHARES

	Number of shares '000	HK$'000	Equivalent to RMB'000
At 1 January 2016	–	–	–
Repurchase	288,153	298,128	257,495
At 31 December 2016	288,153	298,128	257,495

During the year, the Group repurchased 288,153,000 shares from the open market with a cash consideration of RMB257,495,000 for the share option scheme. As at 31 December 2016, these shares have not been granted.

35. DERIVATIVE FINANCIAL INSTRUMENTS

On 31 March 2016 (the "Issue Date"), the Company issued 2.5 billion warrants (the "Warrants") as part of the consideration to acquire the Target Group (note 5). Pursuant to the acquisition agreement and the supplemental agreement, the Warrants are exercisable to subscribe for an aggregate of 2.5 billion shares of the Company at an initial exercise price of HK$2.15 per share at any time prior to the second anniversary of the Issue Date. The exercise price of the Warrants is subject to adjustment in accordance with the terms and conditions upon the occurrence of certain events including, among other things, subdivision or consolidation of shares, the making of a free distribution of shares, bonus issue, the declaration of a dividend in shares, capital distribution, issuance of options, rights or other warrants, and other dilutive events such as issue of new shares.

According to the terms and conditions of the Warrants, the Warrants were accounted for as a derivative liability at fair value on initial recognition and subsequent measurement. The fair values of the Warrants on the Issue Date and 30 June 2016 were RMB226,852,000 and RMB117,731,000, respectively. The change of fair value of RMB109,121,000 was recognised as a gain for the year.

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35. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

On 1 July 2016, the terms and conditions of the Warrants were amended. The Warrants will be since then settled by exchanging a fixed amount of cash for a fixed number of shares of the Company. Therefore, the carrying amount of the Warrants of RMB117,731,000 was reclassified from a derivative liability to equity.

As of the date of approval of these financial statements, no warrant was exercised by the warrant holder.

36. RESERVES

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.

Share option reserve

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.

37. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

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

	2016	2015
Percentage of equity interest held by non-controlling interests: GOME-on-line	**40%**	40%

	2016 RMB'000	2015 RMB'000
Loss for the year allocated to non-controlling interests: GOME-on-line	**(368,489)**	(266,752)
Accumulated balances of non-controlling interests at the reporting date: GOME-on-line	**(1,281,493)**	(913,004)

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

2016	**GOME-on-line RMB'000**
Revenue	**10,697,435**
Loss for the year	**(921,222)**
Current assets	**1,309,048**
Non-current assets	**408,302**
Current liabilities	**(4,921,083)**
Net cash flows from operating activities	**556,050**
Net cash flows used in investing activities	**(134,031)**
Net increase in cash and cash equivalents	**422,019**

2015	GOME-on-line RMB'000
Revenue	6,738,502
Loss for the year	(666,880)
Current assets	981,726
Non-current assets	331,253
Current liabilities	(3,595,489)
Net cash flows from operating activities	146,223
Net cash flows used in investing activities	(106,770)
Net increase in cash and cash equivalents	39,453

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38. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Interim:		
Cash dividend of Nil (2015: HK2.10 cents (equivalent to RMB1.62 fen)) per ordinary share	**–**	274,769
Proposed final:		
Cash dividend of HK0.70 cent (equivalent to RMB0.59 fen) (2015: Cash dividend of HK1.50 cents (equivalent to RMB1.23 fen)) per ordinary share	**130,056**	208,416
	130,056	483,185

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

39. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(a) Operating lease arrangements

As lessee

The Group leases certain of its properties under operating lease arrangements. These have remaining lease terms ranging from 1 to 19 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:

	2016 RMB'000	2015 RMB'000
Within one year	**3,880,930**	3,092,860
In the second to fifth years, inclusive	**10,325,263**	8,507,126
After five years	**4,144,895**	3,675,363
	18,351,088	15,275,349

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39. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS *(Continued)*

(a) Operating lease arrangements *(Continued)*

As lessor

The Group has leased its investment properties (note 14) 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 14 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.

At the end of the reporting period, the Group had the following future minimum rentals receivable under non-cancellable operating leases:

	2016 RMB'000	2015 RMB'000
Within one year	**264,821**	290,894
In the second to fifth years, inclusive	**594,820**	728,825
After five years	**165,037**	208,200
	1,024,678	1,227,919

(b) Capital commitments

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

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for	**137,147**	70,658

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40. 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	2016 RMB'000	2015 RMB'000
Sales to the GOME Retail*	*(i)*	**1,535,650**	4,610,794
Purchases from GOME Retail*	*(i)*	**426,128**	1,023,620
Provision of management and purchasing services to GOME Retail*	*(ii), 6*	**31,656**	250,000
Rental expenses and other expenses to GOME Property and Beijing GOME**	*(iii)*	**142,898**	132,760
Service fee to GOME Ruidong and Anxun Logistics (defined in (i) and (iv) below)	*(iv)*	**576,654**	6,737
Warehouse service income from Anxun Logistics		**21,591**	–
Construction expenses to GOME Property		**10,377**	–
Commission income from GOME Xinda***		**2,033**	–
Service income from GOME Financial****		**1,192**	–
Group suppliers factoring receivable from the Group with GOME Xinda ***	*(v)*	**–**	–

* 國美電器零售有限公司 ("GOME Electrical Appliance Retail Co., Ltd." or "GOME Retail") is a wholly-owned subsidiary of the Target Group.

** 國美地產控股有限公司 ("GOME Property Co., Ltd." or "GOME Property") and 北京國美電器有限公司 ("Beijing GOME Electrical Appliance Co., Ltd." or "Beijing GOME") and their respective subsidiaries are owned by Mr. Wong Kwong Yu ("Mr. Wong"), a substantial shareholder of the Company.

The leased building area is owned by 北京新恒基房地產有限公司 ("Beijing Xinhengji Property Co., Ltd." or "Beijing Xinhengji"), which is owned by a close member of the family of Mr. Wong. In 2007, Beijing Xinhengji assigned ownership of the building to GOME Property and also authorised GOME 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.

*** 國美信達保理有限公司 ("GOME Xinda Commercial Factoring Co., Ltd." or "GOME Xinda") is a subsidiary of 國美金融科技有限公司 ("國美金融科技", 00628.HK), which is a company listed in the Stock Exchange owned by Ms. Du Juan, who is the spouse of Mr. Wong.

**** 國美金控投資有限公司 ("GOME Financial Holdings Investment Co., Ltd." or "GOME Financial") is owned by Mr. Wong.

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40. 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 GOME Retail in respect of the electrical appliances and consumer electronic products were conducted based on the actual purchase costs from the Group's third party suppliers. The related party transactions represented the transactions between both parties up to 31 March 2016 as GOME Retail became a subsidiary of the Company since 1 April 2016. The related transactions have been eliminated within the Group after the consolidation of the Target Group since 1 April 2016.

The original master purchase and master supply agreements expired on 31 December 2015. The transitional agreements were entered into on 30 December 2015 as transitional arrangements for the Group to continue its existing operations pending approval by the independent Shareholders of the Company, among other things, the acquisition of the Target Group. The acquisition was then approved by the independent Shareholders of the Company on 22 January 2016. As the transitional agreements would expire on 29 February 2016, on 25 January 2016, 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"), which is beneficially owned by Mr. Wong, and GOME Retail to the Company's subsidiaries (including 國美電器有限公司 ("GOME Appliance") and 國美在綫電子商務有限公司 ("GOME-on-line")) for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion, respectively, and (2) the master merchandise supply agreement for the supply of general merchandise (including electrical appliances and consumer electronic products) by GOME Appliance to GOME Ruidong, GOME Retail and GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion (including the transactions between GOME Appliance and GOME-on-line, which is regarded as a connected person under the Listing Rules), respectively. Sales and purchases represented the transactions between the Group and GOME Retail for the period from 1 January 2016 to 31 March 2016.

The transactions constitute continuing connected transactions under the Listing Rules.

(ii) The Group provides management services to GOME Retail 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 GOME Retail on a centralised basis.

The management agreement was terminated after the acquisition of the Target Group.

The purchasing service agreement was not renewed upon its expiry on 31 December 2015.

The transactions constitute continuing connected transactions under the Listing Rules.

(iii) On 30 December 2015, the Group renewed the lease agreements with GOME Property and Beijing GOME with respect to the continuous use of the properties. During the year, the rental expenses incurred by the Group payable to GOME Property and Beijing GOME amounted to RMB127,130,000 (2015: RMB116,992,000) and RMB15,768,000 (2015: RMB15,768,000), respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

(iv) On 30 December 2015, the Group entered into (1) logistics services agreements pursuant to which GOME Ruidong and 安迅物流有限公司 ("Anxun Logistics Co., Ltd." or "Anxun Logistics"), which is beneficially owned by Mr. Wong, will provide the logistics services to GOME Appliance and GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively, and (2) the after-sales services agreement pursuant to which GOME Ruidong will provide the after-sales services to GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended 31 December 2016, 2017 and 2018 not exceeding RMB150 million, RMB150 million and RMB150 million, respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

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40. RELATED PARTY TRANSACTIONS *(Continued)*

(a) The Group had the following ongoing transactions with related parties during the year: *(Continued)*

Notes: (Continued)

(v) The suppliers of the Group contracted with GOME Xinda for factoring business and transferred the right of receivables to GOME Xinda. The amount of RMB132 million due to a related party recorded on the consolidated statement of financial position arose from this arrangement.

The transactions constitute continuing connected transactions under the Listing Rules but are exempted from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

All the above related party transactions were determined by mutual agreements between the involved parties after taking into account prevailing market prices. The board of 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

On 20 December 2016, GOME Appliance, GOME-on-line and 北京國美管家信息技術有限公司 ("Beijing GOME House Manager Information Technology Co., Ltd." or "GOME House Manager") entered into a lease agreement with GOME Property for the continuing use of properties in Pengrun Building for 6 years commencing from 1 January 2017 to 31 December 2022. As the result, the Group had rental commitments with GOME Property amounting to RMB913,361,000 (31 December 2015: RMB116,992,000).

On 20 December 2016, GOME Appliance entered into a lease agreement with Beijing GOME for the continuing use of a property commencing from 1 January 2017 to 31 December 2017. As the result, the Group had rental commitments with Beijing GOME amounting to RMB16,097,000 (2015: RMB15,768,000).

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

	2016 RMB'000	2015 RMB'000
Fees	**2,394**	2,640
Other emoluments:		
Salaries, allowances and other expense	**10,214**	10,174
Pension scheme contributions	**325**	318
Equity-settled share option expense	**164**	838
	13,097	13,970

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

41. FINANCIAL INSTRUMENTS BY CATEGORY

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

2016

Financial assets

	Loans and receivables RMB'000	Financial assets at fair value through profit or loss RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	–	1,007,046	1,007,046
Entrusted loans	500,000	–	–	500,000
Equity investments at fair value through profit or loss	–	1,333,529	–	1,333,529
Trade and bills receivables	162,908	–	–	162,908
Financial assets included in prepayments, deposits and other receivables	1,224,259	–	–	1,224,259
Due from related companies	239,392	–	–	239,392
Pledged deposits	5,382,804	–	–	5,382,804
Cash and cash equivalents	13,236,752	–	–	13,236,752
	20,746,115	1,333,529	1,007,046	23,086,690

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Bonds payable	8,849,485
Interest-bearing bank loans	1,990,214
Trade and bills payables	23,898,406
Financial liabilities included in customers' deposits, other payables and accruals	2,377,455
Due to related companies	661,427
	37,776,987

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41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2015

Financial assets

	Loans and receivables RMB'000	Financial assets at fair value through profit or loss RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	–	595,013	595,013
Equity investments at fair value through profit or loss	–	1,029,142	–	1,029,142
Trade and bills receivables	189,439	–	–	189,439
Financial assets included in prepayments, deposits and other receivables	952,407	–	–	952,407
Due from related companies	189,694	–	–	189,694
Pledged deposits	3,880,903	–	–	3,880,903
Cash and cash equivalents	7,437,717	–	–	7,437,717
	12,650,160	1,029,142	595,013	14,274,315

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank loans	971,512
Trade and bills payables	19,290,931
Financial liabilities included in customers' deposits, other payables and accruals	1,602,084
Due to related companies	1,028,149
	22,892,676

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42. 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:

	Carrying amounts		Fair values	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Other investments	**986,114**	595,013	**986,114**	595,013
Equity investments at fair value through profit or loss	**1,333,529**	1,029,142	**1,333,529**	1,029,142
	2,319,643	1,624,155	**2,319,643**	1,624,155

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 short-term interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments. The fair values of entrusted loans, bonds payable and long-term interest-bearing bank loans are estimated by discounting the expected future cash flows using equivalent market interest rates. As the nominal interest rates approximate to the market interest rates, the fair values of bonds payable and long-term interest-bearing bank loans approximate to their carrying amounts.

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.

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42. 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:

As at 31 December 2016

	Fair value measurement using Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Other investments	**986,114**	**–**	**–**	**986,114**
Equity investments at fair value through profit or loss	**1,333,529**	**–**	**–**	**1,333,529**
	2,319,643	**–**	**–**	**2,319,643**

As at 31 December 2015

	Fair value measurement using Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Other investments	595,013	–	–	595,013
Equity investments at fair value through profit or loss	1,029,142	–	–	1,029,142
	1,624,155	–	–	1,624,155

During the year ended 31 December 2016, there were no transfers into or out of Level 1 and Level 2, and no transfers into or out of Level 3.

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 31 December 2016 and 31 December 2015.

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than other investments, comprise entrusted loans, cash and cash equivalents, pledged deposits and interest-bearing bank loans. The main purpose of these financial instruments is to provide 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 2016, the Group had bank borrowings of RMB1,990,214,000 with floating interest rates (2015: RMB971,512,000).

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 basis points	**(Decrease)/ increase in profit before tax RMB'000**
2016		
If interest rate increases by	**5**	**(905)**
If interest rate decreases by	**(5)**	**905**

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax RMB'000
2015		
If interest rate increases by	5	(173)
If interest rate decreases by	(5)	173

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

As at 31 December 2016, the Group had cash and bank deposits of RMB950,176,000 (2015: RMB304,096,000) and interest-bearing bank loans of RMB1,990,214,000 (2015: RMB971,512,000), which were denominated in foreign currencies, mainly in US$ and the Hong Kong dollar.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates of US$ 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
2016		
If RMB weakens against US$	**5%**	**(60,145)**
If RMB strengthens against US$	**(5%)**	**60,145**
If RMB weakens against HK$	**5%**	**7,918**
If RMB strengthens against HK$	**(5%)**	**(7,918)**

	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in profit before tax RMB'000
2015		
If RMB weakens against US$	5%	(37,818)
If RMB strengthens against US$	(5%)	37,818
If RMB weakens against the HK$	5%	3,852
If RMB strengthens against the HK$	(5%)	(3,852)

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43. 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 23 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, entrusted loans 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, interest-bearing bank loans and bonds payable. 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.

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

	Within 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
2016			
Bonds payable	**435,300**	**11,176,500**	**11,611,800**
Interest-bearing bank loans	**554,282**	**1,484,396**	**2,038,678**
Trade and bills payables	**23,898,406**	**–**	**23,898,406**
Financial liabilities included in customers' deposits, other payables and accruals	**2,377,455**	**–**	**2,377,455**
Due to related companies	**661,427**	**–**	**661,427**
	27,926,870	**12,660,896**	**40,587,766**

	Within 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
2015			
Interest-bearing bank loans	971,512	–	971,512
Trade and bills payables	19,290,931	–	19,290,931
Financial liabilities included in customers' deposits, other payables and accruals	1,602,084	–	1,602,084
Due to related companies	1,028,149	–	1,028,149
	22,892,676	–	22,892,676

43. 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 18) and also equity investments at fair value through profit or loss (note 26) as at 31 December 2016. The Group's listed investments were valued at market price as at 31 December 2016 and 31 December 2015.

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

	31 December 2016	**High/low 2016**	31 December 2015	High/low 2015
Shanghai – A Share Index	**3,104**	**3,539/ 2,638**	3,539	5,178/ 2,851
Shenzhen – A Share Index	**10,177**	**12,659/ 8,987**	12,665	18,212/ 9,260
Hong Kong – Hang Seng Index	**22,001**	**24,364/ 18,279**	21,914	28,589/ 20,368

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Equity price risk *(Continued)*

The following table demonstrates the sensitivity to 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
2016			
Investments listed in:			
Shanghai and Shenzhen – Available-for-sale	**986,114**	**–**	**98,611**
Shanghai and Shenzhen – Equity investments at fair value through profit or loss	**1,168,791**	**116,879**	**–**
Hong Kong – Equity investments at fair value through profit or loss	**164,738**	**16,474**	**–**
	2,319,643	**133,353**	**98,611**
2015			
Investments listed in:			
Shanghai – Available-for-sale	595,013	–	59,501
Shanghai and Shenzhen – Equity investments at fair value through profit or loss	877,567	87,757	–
Hong Kong – Equity investments at fair value through profit or loss	151,575	15,158	–
	1,624,155	102,915	59,501

* Excluding retained earnings

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43. 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:

	2016 RMB'000	2015 RMB'000
Bonds payable	**8,849,485**	–
Interest-bearing bank loans	**1,990,214**	971,512
Due to related companies	**661,427**	1,028,149
Trade and bills payables	**23,898,406**	19,290,931
Customers' deposits, other payables and accruals	**3,932,511**	2,591,986
Less: Cash and cash equivalents	**(13,236,752)**	(7,437,717)
Pledged deposits	**(5,382,804)**	(3,880,903)
Net debt	**20,712,487**	12,563,958
Equity attributable to owners of the parent	**22,486,159**	17,825,949
Total capital	**22,486,159**	17,825,949
Capital and net debt	**43,198,646**	30,389,907
Gearing ratio	**48%**	41%

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44. EVENTS AFTER THE REPORTING PERIOD

(i) On 3 March 2017, the Group and Barclays Bank PLC entered into a subscription agreement in connection with the issuance of US$400,000,000 5.0% bonds due in 2020. The estimated net proceeds of the bond issuance, after deduction of expenses, amounted to approximately US$393.0 million, which the Group intends to use for the Group's business operations overseas and other general corporate purposes overseas. The bonds have been listed and quoted on the Singapore Exchange Securities Trading Limited ("SGX-ST") since 13 March 2017.

(ii) On 23 January 2017, the Group entered into an agreement with (a) 北京鵬潤投資有限公司 (Beijing Eagle Investment Co., Ltd.), (b) 多邊金寶商業有限公司 ("Duobian Jinbao Commercial Company Limited"), (c) 天津國美互聯網資產交易中心有限公司 (Tianjin GOME Internet Assets Exchange Centre Company Limited"), and (d) 北京大康國際鞋城有限公司 ("Beijing Dakang International Shoes City Company Limited") (the "Vendors") pursuant to which the Group has conditionally agreed to acquire the RMB30,000,000 in the existing registered capital of the Target Company, representing 60% of the registered capital of 美信網絡技術有限公司 ("Meixin Network Technology Company Limited", a company incorporated in the PRC with limited liability) together with its subsidiaries (the "Target Company") from the Vendors at an aggregate consideration of RMB900,000,000. The Target Company is principally engaged in the business of a mobile social data platform. The transaction is expected to be completed before the end of March 2017. Upon completion of the acquisition, the Group will have 60% shareholdings of the Target Company. The Target Company will become a non wholly-owned subsidiary of the Group and the Target Company's financial results will then be consolidated into the financial statements of the Group. The Group is in the process of quantifying the impact of the acquisition.

(iii) On 25 January 2017, Sanlian transferred certain retail-related inventories, property and equipment to 山東大中電器有限公司 ("Shandong Dazhong Electrical Co., Ltd." or "Shandong Dazhong"), a wholly owned subsidiary of the Group, with a cash consideration of RMB55 million. The Group is in the process of assessing the fair values of the related assets and liabilities acquired from this transaction.

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45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**11,730,828**	5,389,943
Total non-current assets	**11,730,828**	5,389,943
CURRENT ASSETS		
Amounts due from subsidiaries	**4,424,418**	5,924,148
Prepayments and other receivables	**3,559**	3,337
Equity investments at fair value through profit or loss	**164,736**	151,575
Other investments	**20,930**	–
Cash and cash equivalents	**848,554**	142,645
Total current assets	**5,462,197**	6,221,705
CURRENT LIABILITIES		
Interest-bearing bank loans	**1,987,234**	968,818
Other payables and accruals	**5,497**	6,753
Amounts due to subsidiaries	**1,171,100**	1,096,942
Total current liabilities	**3,163,831**	2,072,513
NET CURRENT ASSETS	**2,298,366**	4,149,192
TOTAL ASSETS LESS CURRENT LIABILITIES	**14,029,194**	9,539,135
Net assets	**14,029,194**	9,539,135
EQUITY		
Issued capital	**527,309**	423,268
Reserves *(note)*	**13,501,885**	9,115,867
Total equity	**14,029,194**	9,539,135

31 December 2016

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:
A summary of the Company's reserves is as follows:

	Treasury shares RMB'000	Share premium RMB'000	Contributed surplus RMB'000 Note (i)	Capital reserve RMB'000	Share option reserve RMB'000 Note (ii)	Warrant Reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	–	9,543,093	42,849	(830,425)	163,036	–	(49,695)	268,084	9,136,942
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	–	483,186	483,186
Exercise of share options	–	5,025	–	–	(1,555)	–	–	–	3,470
2014 dividend paid	–	–	–	–	–	–	–	(234,864)	(234,864)
2015 interim dividend paid	–	–	–	–	–	–	–	(274,769)	(274,769)
Equity-settled share option arrangements	–	–	–	–	1,902	–	–	–	1,902
At 31 December 2015 and 1 January 2016	**–**	**9,548,118**	**42,849**	**(830,425)**	**163,383**	**–**	**(49,695)**	**241,637**	**9,115,867**
Profit for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**174,275**	**174,275**
Issue of shares	**–**	**5,018,248**	**–**	**–**	**–**	**–**	**–**	**–**	**5,018,248**
Shares repurchased for cancellation	**–**	**(382,867)**	**–**	**–**	**–**	**–**	**–**	**–**	**(382,867)**
Shares repurchased for share award scheme	**(257,495)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(257,495)**
Equity-settled share option arrangements	**–**	**–**	**–**	**–**	**337**	**–**	**–**	**–**	**337**
2015 dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(284,211)**	**(284,211)**
Reclassification of warrants	**–**	**–**	**–**	**–**	**–**	**117,731**	**–**	**–**	**117,731**
At 31 December 2016	**(257,495)**	**14,183,499**	**42,849**	**(830,425)**	**163,720**	**117,731**	**(49,695)**	**131,701**	**13,501,885**

Notes:

(i) 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.

(ii) 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.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 27 March 2017.

Independent Auditors' Report

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1 Tim Mei Avenue
Central, Hong Kong
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To the members 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 set out on pages 83 to 179, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2016

Consolidated Statement of Profit or Loss

	Notes	2015 RMB'000	2014 RMB'000
REVENUE	5	**64,595,127**	60,359,843
Cost of sales	6	**(55,082,038)**	(51,365,601)
Gross profit		**9,513,089**	8,994,242
Other income and gains	5	**1,994,026**	2,162,584
Selling and distribution expenses		**(7,791,964)**	(7,526,591)
Administrative expenses		**(1,580,572)**	(1,701,039)
Other expenses		**(768,601)**	(604,967)
Profit from operating activities		**1,365,978**	1,324,229
Finance costs	7	**(43,226)**	(46,111)
Finance income	7	**253,999**	302,026
PROFIT BEFORE TAX	6	**1,576,751**	1,580,144
Income tax expense	10	**(640,257)**	(561,976)
PROFIT FOR THE YEAR		**936,494**	1,018,168
Attributable to:			
Owners of the parent		**1,207,963**	1,279,770
Non-controlling interests	31	**(271,469)**	(261,602)
		936,494	1,018,168
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
– Basic		**RMB7.1 fen**	RMB7.6 fen
– Diluted		**RMB7.1 fen**	RMB7.6 fen

Consolidated Statement of Comprehensive Income

	Notes	2015 RMB'000	2014 RMB'000
PROFIT FOR THE YEAR		**936,494**	1,018,168
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of other investments	*16*	**212,992**	82,350
Exchange differences on translation of foreign operations		**3,292**	12,987
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**216,284**	95,337
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**216,284**	95,337
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,152,778**	1,113,505
Attributable to:			
Owners of the parent		**1,424,247**	1,375,107
Non-controlling interests	*31*	**(271,469)**	(261,602)
		1,152,778	1,113,505

Consolidated Statement of Financial Position

	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000
NON-CURRENT ASSETS			
Property and equipment	*12*	**4,393,245**	4,417,234
Investment properties	*13*	**599,832**	601,224
Goodwill	*14*	**7,145,117**	7,145,117
Other intangible assets	*15*	**242,363**	265,801
Other investments	*16*	**595,013**	217,350
Lease prepayments and deposits	*17*	**1,423,833**	311,128
Deferred tax assets	*18*	**40,140**	31,795
Total non-current assets		**14,439,543**	12,989,649
CURRENT ASSETS			
Inventories	*19*	**10,176,004**	10,926,399
Trade and bills receivables	*20*	**189,439**	267,694
Prepayments, deposits and other receivables	*21*	**4,245,343**	4,797,960
Due from related companies	*22*	**189,694**	227,964
Equity investments at fair value through profit or loss	*23*	**1,029,142**	–
Pledged deposits	*24*	**3,880,903**	6,072,895
Cash and cash equivalents	*24*	**7,437,717**	8,794,112
Total current assets		**27,148,242**	31,087,024
CURRENT LIABILITIES			
Trade and bills payables	*25*	**19,290,931**	20,880,430
Customers' deposits, other payables and accruals	*26*	**2,591,986**	2,425,413
Interest-bearing bank loans	*27*	**971,512**	3,425,950
Due to related companies	*22*	**1,028,149**	521,213
Tax payable		**857,222**	626,151
Total current liabilities		**24,739,800**	27,879,157

Consolidated Statement of Financial Position (Continued)

	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000
NET CURRENT ASSETS		**2,408,442**	3,207,867
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,847,985**	16,197,516
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*18*	**159,623**	162,998
Total non-current liabilities		**159,623**	162,998
Net assets		**16,688,362**	16,034,518
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*28*	**423,268**	423,221
Reserves	*30*	**17,402,681**	16,482,695
		17,825,949	16,905,916
Non-controlling interests		**(1,137,587)**	(871,398)
Total equity		**16,688,362**	16,034,518

Zhang Da Zhong
Director

Zou Xiao Chun
Director

Consolidated Statement of Changes in Equity

	Notes	Attributable to owners of the parent												
		Issued capital RMB'000 Note 28	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve RMB'000	Other investment revaluation reserve RMB'000	Statutory reserves RMB'000 Note 30	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2014		421,551	9,461,244	657	(851,561)	157,953	117,468	41,040	1,441,972	(163,859)	5,300,789	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		3,149	161,375	–	–	–	–	–	–	–	(164,524)	–	–	–
2013 scrip dividend paid in cash		–	–	–	–	–	–	–	–	–	(103,219)	(103,219)	–	(103,219)
Repurchase of shares		(1,479)	(79,526)	–	–	–	–	–	–	–	–	(81,005)	–	(81,005)
Equity-settled share option arrangements	29	–	–	–	–	5,083	–	–	–	–	–	5,083	–	5,083
Transfer to statutory reserves		–	–	–	–	–	–	–	69,292	–	(69,292)	–	–	–
2013 cash dividend paid		–	–	–	–	–	–	–	–	–	(173,649)	(173,649)	–	(173,649)
2014 interim dividend paid		–	–	–	–	–	–	–	–	–	(277,044)	(277,044)	–	(277,044)
Compensation received		–	–	–	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)	5,798,503#	16,905,916	(871,398)	16,034,518

Retained profits have been adjusted for the proposed 2014 final dividend in accordance with the current year's presentation, which is described in note 2.2 to the financial statements.

Consolidated Statement of Changes in Equity (Continued)

		Attributable to owners of the parent												
	Notes	Issued capital RMB'000 Note 28	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve# RMB'000	Other investment revaluation reserve RMB'000	Statutory reserves RMB'000 Note 30	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015		423,221	9,543,093	657	(618,172)	163,036	117,468	123,390	1,505,592	(150,872)	5,798,503	16,905,916	(871,398)	16,034,518
Profit for the year		–	–	–	–	–	–	–	–	–	1,207,963	1,207,963	(271,469)	936,494
Other comprehensive income for the year:														
Changes in fair value of other investments	16	–	–	–	–	–	–	212,992	–	–	–	212,992	–	212,992
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	3,292	–	3,292	–	3,292
Total comprehensive income for the year		–	–	–	–	–	–	212,992	–	3,292	1,207,963	1,424,247	(271,469)	1,152,778
Establishment of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	5,280	5,280
Exercise of share options		47	5,025	–	–	(1,555)	–	–	–	–	–	3,517	–	3,517
Equity-settled share option arrangements	29	–	–	–	–	1,902	–	–	–	–	–	1,902	–	1,902
Transfer to statutory reserves		–	–	–	–	–	–	–	129,318	–	(129,318)	–	–	–
2014 dividend paid	32	–	–	–	–	–	–	–	–	–	(234,864)	(234,864)	–	(234,864)
2015 interim dividend paid	32	–	–	–	–	–	–	–	–	–	(274,769)	(274,769)	–	(274,769)
Wind-up of subsidiaries		–	–	–	–	–	–	–	(2,754)	–	2,754	–	–	–
At 31 December 2015		423,268	9,548,118*	657*	(618,172)*	163,383*	117,468*	336,382*	1,632,156*	(147,580)*	6,370,269*	17,825,949	(1,137,587)	16,688,362

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 RMB17,402,681,000 (2014: RMB16,482,695,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,576,751**	1,580,144
Adjustments for:			
Finance income	*7*	**(253,999)**	(302,026)
Finance costs	*7*	**43,226**	46,111
Loss on equity investments at fair value through profit or loss	*6*	**206,758**	–
Impairment provision for items of property and equipment	*6*	**12,695**	10,464
Net fair value (gain)/loss on investment properties	*6*	**(9,534)**	3,738
Loss on disposal of items of property and equipment	*6*	**7,957**	9,216
Depreciation	*6*	**500,978**	555,868
Amortisation of intangible assets	*6*	**23,438**	23,438
Equity-settled share option expense	*29*	**1,902**	5,083
Gain on compensation received		**–**	(100,102)
		2,110,172	1,831,934
Decrease in lease prepayments and deposits		**30,023**	3,849
Decrease/(increase) in inventories		**750,395**	(2,705,665)
Decrease/(increase) in trade and bills receivables		**78,255**	(22,202)
Increase in prepayments, deposits and other receivables		**(859,356)**	(1,074,621)
Decrease/(increase) in due from related companies		**38,270**	(104,790)
Decrease/(increase) in pledged deposits		**247,865**	(153,565)
(Decrease)/increase in trade and bills payables		**(1,589,499)**	2,802,941
Increase in customers' deposits, other payables and accruals		**166,573**	391,177
Increase in due to related companies		**506,936**	57,071
Cash generated from operations		**1,479,634**	1,026,129
Interest received		**253,999**	324,141
Income tax paid		**(420,906)**	(488,950)
Net cash flows from operating activities		**1,312,727**	861,320

Consolidated Statement of Cash Flows (Continued)

	Notes	2015 RMB'000	2014 RMB'000
Net cash flows from operating activities		**1,312,727**	861,320
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(566,786)**	(629,604)
Proceeds from disposal of items of property and equipment		**80,071**	71,490
Prepaid land lease payments		**(1,142,728)**	–
Purchases of equity investments at fair value through profit or loss		**(1,235,900)**	–
Purchases of other investments		**(164,671)**	–
Refund/(prepayment) for shares subscription		**1,411,973**	(1,411,973)
Net cash flows used in investing activities		**(1,618,041)**	(1,970,087)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares		**–**	(81,005)
Capital injection from non-controlling shareholders		**5,280**	–
Exercise of share options		**3,517**	–
Compensation from shareholders received		**–**	333,491
New bank loans	*27*	**2,694**	3,435,526
Decrease in pledged deposits for bank loans	*24*	**1,944,127**	487,465
Repayment of bank loans	*27*	**(2,469,729)**	(2,698,635)
Dividends paid		**(509,633)**	(553,912)
Interest paid		**(43,226)**	(40,687)
Net cash flows (used in)/from financing activities		**(1,066,970)**	882,243
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,372,284)**	(226,524)
Cash and cash equivalents at beginning of year		**8,794,112**	9,015,813
Effect of foreign exchange rate changes, net		**15,889**	4,823
CASH AND CASH EQUIVALENTS AT END OF YEAR		**7,437,717**	8,794,112
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*24*	**6,835,713**	8,468,197
Non-pledged time deposits with original maturity of less than three months when acquired	*24*	**602,004**	325,915
		7,437,717	8,794,112

1. CORPORATE AND GROUP 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 sale in the People's Republic of China (the "PRC").

Information about subsidiaries

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	–	Note (v)
Hong Kong Punching Centre Limited	Hong Kong	HK$100,000	–	100	Property holding
Ocean Town Int'l Inc.	British Virgin Islands/ Hong Kong	US$50,000	–	100	Investment holding
Gome Appliance Company Limited (viii) 國美電器有限公司	PRC	RMB1 billion	–	100	Note (vi)
Tianjin Gome Electrical Appliance Company Limited (i) 天津國美電器有限公司	PRC	RMB40 million	–	100	Note (iii)

Notes to Financial Statements

31 December 2015

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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
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)
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)

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1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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
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)
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)

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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
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)
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
Tianjin Pengze Logistics Company Limited (i) (viii) 天津鵬澤物流有限公司	PRC	US$50 million	–	100	Note (iv)

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31 December 2015

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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
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 Hengxin 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 Hengxin Ruida Logistics Company Limited (i) 天津恒信瑞達物流有限公司	PRC	RMB20 million	–	100	Note (iv)
Kuba Technology (Beijing) Co., Ltd. (“Kuba”) (i) 庫巴科技（北京）有限公司	PRC	RMB83 million	–	60	Note (ix)
GOME-on-line e-Commerce Co., Ltd. (“GOME-on-line”) (i) 國美在線電子商務有限公司	PRC	RMB83 million	–	60	Note (ix)
GOME Japan Company Limited	Japan	JPY200 million	–	51	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)
GOME International Trading Company Limited 國美海外購有限公司	Hong Kong	HK$1	–	100	Note (ix)
Shantou Shengyuan Yuexin Technology Co., Ltd. (i) 汕頭盛源悦信科技有限公司	PRC	USD30 million	–	100	Notes (iv)/(v)

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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 and procurement 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.

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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, other investments which are classified as available-for-sale financial assets and equity investments at fair value through profit or loss, 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 2015. 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).

Notes to Financial Statements

31 December 2015

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained 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 for the first time for the current year's financial statements.

Amendments to IAS 19, *Defined Benefit Plans: Employee Contributions*
Annual Improvements to IFRSs 2010-2012 Cycle
Annual Improvements to IFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

(a) Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no significant impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements* to *IFRSs 2010-2012 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year 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. The amendments have had no impact on the Group.

- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarifies the treatment of the gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- IAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

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

(c) The *Annual Improvements to IFRSs 2011-2013 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- IFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS 13.

- IAS 40 *Investment Property*: Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	*Financial Instruments*[3]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[6]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	*Amendments to a number of IFRSs*[1]
IFRS 16	*Lease*[4]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[2]

1 Effective for annual periods beginning on or after 1 January 2016

2 Effective for annual periods beginning on or after 1 January 2017

3 Effective for annual periods beginning on or after 1 January 2018

4 Effective for annual periods beginning on or after 1 January 2019

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

6 No mandatory effective date yet determined but is available for adoption

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

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

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. During 2015, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 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.

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

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.

IFRS 15 establishes a new five-step model to account for 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. In July 2015, the ISAB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

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31 December 2015

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 is measured at fair value with changes in fair value recognised in profit or loss. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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.

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.

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 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);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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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 are stated at cost less any impairment loss, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

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

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

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property and equipment and depreciation” above.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, available-for-sale financial investments and financial assets at fair value through profit and loss, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments *(Continued)*

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

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

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

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

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

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 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.

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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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

The subsequent measurement of financial liability depends on the classification as follows:

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 consolidated 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

- Income from suppliers comprising promotion income, management fee income, display space leasing fees and product listing fees is recognised according to the underlying contract terms when these services have been 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 29 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market condition or non-vesting condition, the transactions are treated as vesting irrespective of whether 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

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

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

Pursuant to the relevant PRC laws and regulations, the employees of the Group's PRC subsidiaries are required to participate in a central pension scheme operated by the local municipal government. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were 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. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional 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 is 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 RMB 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 their 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.

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 Appliances 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 2015 was RMB7,145,117,000 (2014: 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 2015 was RMB599, 832,000 (2014: RMB601,224,000). 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 2015 was RMB11,280,000 (2014: RMB5,467,000). The amount of unrecognised tax losses at 31 December 2015 was RMB5,287,938,000 (2014: RMB4,360,400,000). 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 2015, the carrying amount of available-for-sale financial assets was RMB595,013,000 (2014: RMB217,350,000). 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 to be 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 2015 was RMB4,393,245,000 (2014: RMB4,417,234,000). 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 network of electrical appliances, consumer electronic products retail stores and electronic products on-line sale 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, finance costs, loss on equity investment at fair value through profit or loss and corporate and other unallocated expenses are excluded from this measurement.

Segment assets exclude other investments, deferred tax assets, equity investments at fair value through profit or loss, 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.

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4. OPERATING SEGMENT INFORMATION *(Continued)*

	2015 RMB'000	2014 RMB'000
Segment revenue		
Sales to external customers	**64,595,127**	60,359,843
Segment results	**1,620,470**	1,309,488
Reconciliation:		
Bank interest income	**253,999**	302,026
Unallocated income	**2,730**	102,568
Finance costs	**(43,226)**	(46,111)
Loss on equity investments at fair value through profit or loss	**(206,758)**	–
Corporate and other unallocated expenses	**(50,464)**	(87,827)
Profit before tax	**1,576,751**	1,580,144
Segment assets	**28,604,870**	28,960,521
Reconciliation:		
Corporate and other unallocated assets	**12,982,915**	15,116,152
Total assets	**41,587,785**	44,076,673
Segment liabilities	**22,911,066**	23,827,056
Reconciliation:		
Corporate and other unallocated liabilities	**1,988,357**	4,215,099
Total liabilities	**24,899,423**	28,042,155
Other segment information		
Depreciation and amortisation	**524,416**	579,306
Capital expenditure*	**566,786**	625,659

* Capital expenditure consists of additions to property and equipment.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

	2015 RMB'000	2014 RMB'000
Mainland China	**64,595,127**	60,359,843

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

(b) Non-current assets

	2015 RMB'000	2014 RMB'000
Mainland China	**13,770,013**	12,713,520
Hong Kong	**34,377**	26,984
	13,804,390	12,740,504

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

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5. REVENUE, OTHER INCOME AND GAINS

Revenue 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	2015 RMB'000	2014 RMB'000
Revenue			
Sale of electrical appliances and consumer electronic products		**64,595,127**	60,359,843
Other income			
Income from suppliers, net		**461,105**	473,323
Management and purchasing service fees from the Non-listed GOME Group	*(i)*	**250,000**	250,000
Income from air-conditioner installation		**149,188**	148,074
Gross rental income		**311,958**	307,684
Government grants	*(ii)*	**163,397**	114,944
Other service fee income		**271,270**	233,352
Income from compensation		**14,170**	41,429
Other income from telecommunication service providers		**171,963**	249,551
Commission income from services provision of on-line platform		**123,484**	98,685
Others		**67,957**	145,440
		1,984,492	2,062,482
Gains			
Fair value gain on investment properties	*13*	**9,534**	–
Compensation received		**–**	100,102
		9,534	100,102
		1,994,026	2,162,584

Notes:

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

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

6. PROFIT BEFORE TAX

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

	Notes	**2015** **RMB'000**	2014 RMB'000
Cost of inventories sold		**55,082,038**	51,365,601
Depreciation	*12*	**500,978**	555,868
Amortisation of intangible assets	*15, (i)*	**23,438**	23,438
Loss on disposal of items of property and equipment		**7,957**	9,216
Loss on equity investments at fair value through profit or loss		**206,758**	–
Minimum lease payments under operating leases		**3,564,687**	3,303,420
Impairment provision for items of property and equipment	*12*	**12,695**	10,464
Foreign exchange differences, net		**10,770**	37,396
Auditors' remuneration			
– audit services		**9,229**	6,692
– non-audit services		**877**	540
Staff costs excluding directors' and chief executive's remuneration *(note 8)*:			
Wages, salaries and bonuses		**2,119,882**	2,155,715
Pension scheme contributions*		**486,881**	443,481
Social welfare and other costs		**57,319**	54,036
Equity-settled share option expense		**1,686**	5,075
		2,665,768	2,658,307
Gross rental income	*5*	**(311,958)**	(307,684)
Net fair value (gain)/loss on investment properties	*5, 13*	**(9,534)**	3,738

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 2015, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2014: Nil).

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7. FINANCE (COSTS)/INCOME

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

	2015 RMB'000	2014 RMB'000
Finance costs:		
Interest on bank loans	**(43,226)**	(46,111)
Finance income:		
Bank interest income	**253,999**	302,026

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"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 RMB'000	2014 RMB'000
Fees	**2,640**	3,967
Other emoluments:		
Salaries, allowances and other expense	**1,812**	2,483
Equity-settled share option expense	**216**	8
Pension scheme contributions	**43**	39
	2,071	2,530

During the year 2009, certain directors and chief executive were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 29 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.

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:

	Notes	2015 RMB'000	2014 RMB'000
Mr. Sze Tsai Ping, Michael	*(ii)*	**232**	475
Mr. Chan Yuk Sang	*(ii)*	**232**	475
Mr. Lee Kong Wai, Conway		**402**	475
Mr. Ng Wai Hung		**402**	475
Ms. Liu Hong Yu		**399**	475
Mr. Wang Gao	*(iii)*	**167**	–
		1,834	2,375

Notes:

(i) There was no other emolument payable to the independent non-executive directors during the year (2014: Nil).

(ii) Mr. Sze Tsai Ping, Michael and Mr. Chan Yuk Sang retired as independent non-executive directors of the Company on 24 June 2015.

(iii) Mr. Wang Gao was appointed as an independent non-executive director of the Company with effect from 24 June 2015.

Notes to Financial Statements

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

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

2015	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		–	322	–	–	322
		–	322	–	–	322
Non-executive directors:						
Mr. Zhu Jia	*(i)*	35	–	–	–	35
Ms. Wang Li Hong	*(i)*	35	–	–	–	35
Mr. Zhang Da Zhong		402	–	–	–	402
Ms. Huang Xiu Hong	*(ii)*	167	–	–	–	167
Mr. Yu Sing Wong	*(ii)*	167	–	–	–	167
		806	–	–	–	806
Chief executive:						
Mr. Wang Jun Zhou		–	1,490	216	43	1,749
		806	1,812	216	43	2,877

Notes:

(i) Mr. Zhu Jia and Ms. Wang Li Hong resigned as non-executive directors of the Company on 28 January 2015.

(ii) Ms. Huang Xiu Hong and Mr. Yu Sing Wong were appointed as non-executive directors of the Company with effect from 24 June 2015.

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

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

2014	**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		–	886	–	–	886
		–	886	–	–	886
Non-executive directors:						
Mr. Zhang Da Zhong		475	–	–	–	475
Mr. Zhu Jia		475	–	–	–	475
Ms. Wang Li Hong		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

Note:

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

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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 (2014: 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 (2014: four) highest paid individuals who are neither a director nor the chief executive of the Group are as follows:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and other expense	**5,542**	5,392
Pension scheme contributions	**154**	140
Equity-settled share option expense	**509**	22
	6,205	5,554

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	
	2015	2014
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,207,501 to RMB1,610,000)	**4**	4
	4	4

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 2015 and 2014.

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$1,500 and 5% of the employees' salaries for the years ended 31 December 2015 and 2014.

The Group's contributions to pension schemes for the year ended 31 December 2015 amounted to approximately RMB486,924,000 (2014: RMB443,520,000).

10. INCOME TAX EXPENSE

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

	2015 **RMB'000**	2014 RMB'000
Current income tax	**651,977**	552,481
Deferred income tax *(note 18)*	**(11,720)**	9,495
Total tax charge for the year	**640,257**	561,976

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% (2014: 25%) on their respective taxable income. During the year, 26 entities (2014: 24 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

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.

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10. INCOME TAX EXPENSE *(Continued)*

As the Group had assessable profits arising in Hong Kong for 2015, a provision for Hong Kong profits tax of RMB41,000 has been made for the year ended 31 December 2015 (2014: RMB1,000).

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:

			2015		
	Hong Kong RMB'000	**%**	**Mainland China RMB'000**	**%**	**Total RMB'000**
(Loss)/profit before tax	**(142,026)**		**1,718,777**		**1,576,751**
Income tax at the statutory tax rate	**(23,434)**	**16.5**	**429,694**	**25.0**	**406,260**
Tax effect of preferential tax rates	**–**		**(68,015)**		**(68,015)**
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	**–**		**48,319**		**48,319**
Income not subject to tax	**(3,537)**		**(28,479)**		**(32,016)**
Expense not deductible for tax	**9,157**		**89,574**		**98,731**
Tax losses utilised from previous years	**(5)**		**(77,180)**		**(77,185)**
Tax losses not recognised	**17,860**		**246,303**		**264,163**
Tax charge at the Group's effective rate	**41**		**640,216**		**640,257**

			2014		
	Hong Kong RMB'000	%	Mainland China RMB'000	%	Total 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 recognised	14,606		206,491		221,097
Tax charge at the Group's effective rate	1		561,975		561,976

10. INCOME TAX EXPENSE *(Continued)*

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 2015, 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 (2014: 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 16,960,613,000 (2014: 16,923,994,000) 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 2015 and year ended 31 December 2014, 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:

	2015	2014
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	**1,207,963**	1,279,770

	Number of shares	
	2015	2014
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**16,960,613**	16,923,994

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12. PROPERTY AND EQUIPMENT

	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 2015						
At 31 December 2014 and 1 January 2015:						
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
At 1 January 2015, net of accumulated depreciation and impairment:	3,015,559	669,112	622,913	16,395	93,255	4,417,234
Additions	–	238,557	159,667	11,474	157,088	566,786
Disposals	–	(72,900)	(12,840)	(2,288)	–	(88,028)
Impairment	–	(12,695)	–	–	–	(12,695)
Depreciation provided during the year	(128,214)	(135,595)	(228,336)	(8,833)	–	(500,978)
Transfers from investment properties	10,926	–	–	–	–	10,926
Transfers from construction in progress	–	–	84,030	–	(84,030)	–
At 31 December 2015, net of accumulated depreciation and impairment	2,898,271	686,479	625,434	16,748	166,313	4,393,245
At 31 December 2015:						
Cost	3,701,118	2,071,229	1,671,219	91,913	166,313	7,701,792
Accumulated depreciation and impairment	(802,847)	(1,384,750)	(1,045,785)	(75,165)	–	(3,308,547)
Net carrying amount	2,898,271	686,479	625,434	16,748	166,313	4,393,245

12. PROPERTY AND EQUIPMENT *(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 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)
Transfers 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

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 2015. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2015 amounted to RMB1,164,024,000 (31 December 2014: RMB1,027,907,000).

The recoverable amount was nil for those impaired assets as at 31 December 2015.

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13. INVESTMENT PROPERTIES

	2015 **RMB'000**	2014 RMB'000
Carrying amount at 1 January	**601,224**	948,805
Net gain/(loss) from a fair value adjustment	**9,534**	(3,738)
Transfer to owner-occupied properties *(note 12)*	**(10,926)**	(343,843)
Carrying amount at 31 December	**599,832**	601,224

Investment properties comprised commercial properties in Mainland China and an industrial property and a car park in Hong Kong that are leased to third parties.

Investment properties are stated at fair value, which has been determined with reference to the valuations performed by Beijing North Asia Asset Assessment Firm (Special General Partnership) and B.I. Appraisals Limited, independent firms of professionally qualified valuers, on the income approach and direct comparison approach, as at 31 December 2015. 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 purpose.

As at 31 December 2015, investment properties of approximately RMB30,412,000 (31 December 2014: RMB26,034,000) are located in Hong Kong under medium term leases and investment properties of approximately RMB569,420,000 (31 December 2014: RMB575,190,000) 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 2015. The aggregate fair value of the the Group's pledged investment properties as at 31 December 2015 amounted to RMB369,986,000 (31 December 2014: RMB433,096,000).

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 2015 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	**–**	**–**	**569,420**	**569,420**
Industrial property and a car park	**–**	**–**	**30,412**	**30,412**
	–	**–**	**599,832**	**599,832**

	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

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 (2014: Nil).

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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 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 and 1 January 2015	575,190	26,034
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	**5,156**	**4,378**
Transfer to owner-occupied properties	**(10,926)**	**–**
Carrying amount at 31 December 2015	**569,420**	**30,412**

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 2015	Range 2014
Commercial properties	Income approach	Estimated rental value (RMB per square meter and per month)	**37.5 – 240.0**	35.0 – 161.3
		Rental growth (per annum)	**2% – 3%**	1% – 2%
		Long term vacancy rate	**3% – 5%**	5% – 10%
		Discount rate	**6%**	5% – 7%

	Valuation technique	Significant unobservable inputs	Unit price 2015	Unit price 2014
Industrial property and a car park	Direct comparison approach	Market value (RMB per square meter)	**22,974**	19,667

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 an opposite change in the discount rate and long term vacancy rate.

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

14. GOODWILL

	2015 **RMB'000**	2014 RMB'000
At 1 January and 31 December:		
Cost	**7,170,907**	7,170,907
Accumulated impairment	**(25,790)**	(25,790)
Net carrying amount	**7,145,117**	7,145,117
Cost at 1 January and 31 December net of accumulated impairment	**7,145,117**	7,145,117

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14. GOODWILL *(Continued)*

Impairment testing of goodwill

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

	2015 RMB'000	2014 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 after-tax discount rate applied to the cash flow projections was 13.34% (2014: 13.86%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2014: 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 basis used to determine the future earnings potential are historical sales and average and expected growth rates of the retail market in the PRC.
Gross margins:	the gross margins are based on the average gross margin achieved in the past five years.
Expenses:	the value assigned to the key assumptions reflects past experience and management's commitment to maintain the Group's operating expenses to an acceptable level.
Discount rates:	the discount rates used are before tax and reflect management's estimate of the risks specific to each unit. In determining appropriate discount rates for each unit, regard has been given to the applicable borrowing rate of the Group in the current year.

Sensitivity to changes in assumptions

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

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15. OTHER INTANGIBLE ASSETS

	Trademarks RMB'000
31 December 2015	
At 31 December 2014 and 1 January 2015:	
Cost	**440,959**
Accumulated amortisation	**(175,158)**
Net carrying amount	**265,801**
Cost at 1 January 2015, net of accumulated amortisation	**265,801**
Amortisation provided during the year	**(23,438)**
At 31 December 2015	**242,363**
At 31 December 2015:	
Cost	**440,959**
Accumulated amortisation	**(198,596)**
Net carrying amount	**242,363**
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 amortisation	(175,158)
Net carrying amount	265,801

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.

16. OTHER INVESTMENTS

	2015 **RMB'000**	2014 RMB'000
Equity investments in Mainland China, at fair value	**595,013**	217,350

During 2015, through Shandong Longji Island Construction Company Limited, the Group acquired an additional 12,987,400 shares in 三聯商社股份有限公司 ("Sanlian Commercial Co., Ltd." or "Sanlian") at a cash consideration of RMB164,671,000. The balance as at 31 December 2015 represented the fair value of the Group's investments in 39,987,400 shares (31 December 2014: 27,000,000 shares), representing approximately 15.84% of the outstanding issued shares of 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 2015 and 2014. 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 2015 (31 December 2014: two). 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 2015, the fair value of these investments was based on the quoted market price of the listed shares, which was RMB14.88 per share (31 December 2014: RMB8.05 per share). The gain in respect of the Group's other investments recognised in other comprehensive income amounted to RMB212,992,000 (2014: RMB82,350,000).

During 2015, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to RMB28,726,100 (2014: RMB30,224,371). The sales to Sanlian were made according to the published prices and conditions offered to other customers of the Group.

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17. LEASE PREPAYMENTS AND DEPOSITS

	Notes	2015 RMB'000	2014 RMB'000
Prepaid land lease payments	*(i)*	**1,149,667**	35,753
Rental prepayments and deposits	*(ii)*	**274,166**	275,375
		1,423,833	311,128

Notes:

(i) Prepaid land lease payments

	Note	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January		**36,930**	38,107
Additions		**1,142,728**	–
Recognised during the year		**(1,979)**	(1,177)
Carrying amount at 31 December		**1,177,679**	36,930
Current portion included in prepayments, deposits and other receivables.	*21*	**(28,012)**	(1,177)
Non-current portion		**1,149,667**	35,753

The leasehold land is held under medium term leases and situate in Mainland China.

(ii) The balances at 31 December 2015 and 2014 represented the non-current portion of rental prepayments and deposits.

18. DEFERRED TAX

	Note	Balance at 1 January 2015 RMB'000	Recognised in the consolidated statement of profit or loss RMB'000	Balance at 31 December 2015 RMB'000
Deferred tax assets:				
Tax losses	*(i)*	**5,467**	**5,813**	**11,280**
Fair value adjustment on investment properties		**3,515**	**2,532**	**6,047**
Fair value adjustment on transfer of owner-occupied properties to investment properties		**22,813**	**–**	**22,813**
		31,795	**8,345**	**40,140**
Deferred tax liabilities:				
Fair value adjustment arising from acquisition of subsidiaries		**106,568**	**(7,196)**	**99,372**
Fair value adjustment on investment properties		**17,275**	**3,821**	**21,096**
Fair value adjustment on transfer of own-occupied properties to investment properties		**39,155**	**–**	**39,155**
		162,998	**(3,375)**	**159,623**

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18. DEFERRED TAX *(Continued)*

	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 own-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 own-occupied properties to investment properties		39,155	–	39,155
		172,296	(9,298)	162,998

Note:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB617 million (2014: RMB509 million), that are available indefinitely, and in the PRC of RMB4,671 million (2014: RMB3,851 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 2015, 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.

19. INVENTORIES

	2015 **RMB'000**	2014 RMB'000
Merchandise for resale	**10,026,078**	10,792,532
Consumables	**149,926**	133,867
	10,176,004	10,926,399

As at 31 December 2015, the Group's inventories amounting to RMB537 million (31 December 2014: RMB521 million) were pledged as security for the Group's bills payable (note 25).

20. 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:

	2015 **RMB'000**	2014 RMB'000
Outstanding balances, aged:		
Within 3 months	**143,538**	215,817
3 to 6 months	**38,281**	34,021
6 months to 1 year	**7,620**	17,856
	189,439	267,694

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

	2015 **RMB'000**	2014 RMB'000
Neither past due nor impaired	**71,769**	107,909
Less than 3 months past due	**90,910**	124,919
Over 3 months past due	**26,760**	34,866
	189,439	267,694

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.

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20. TRADE AND BILLS RECEIVABLES *(Continued)*

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.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	**2015 RMB'000**	2014 RMB'000
Prepayments		**831,985**	740,279
Advances to suppliers		**2,432,939**	1,722,515
Other deposits and receivables		**785,821**	755,430
Receivables from Wuhan Yinhe	*(i)*	**166,586**	166,586
Prepayment for share subscription		**–**	1,411,973
Current portion of prepaid land lease payments	*17*	**28,012**	1,177
		4,245,343	4,797,960

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 judgement and ordered that: (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 were in the process of auction. However, the auctions have been aborted for three times because there was no offering from any bidder. As at 31 December 2015, this case was not settled and the court is assisting the mediation between the Group and Wuhan Yinhe.

As at 31 December 2015, in the opinion of management, the Group will be 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 outstanding receivable.

22. DUE FROM/TO RELATED COMPANIES

Due from Related Companies

	2015 RMB'000	2014 RMB'000
Management fee receivables from the Non-listed GOME Group*	**43,048**	71,410
Other receivables from the Non-listed GOME Group**	**146,646**	156,554
	189,694	227,964

* 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

	2015 RMB'000	2014 RMB'000
Payables to the Non-listed GOME Group **	**1,028,149**	521,213

** 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.

23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2015 RMB'000	31 December 2014 RMB'000
Listed equity investments, at market value	**1,029,142**	–

During year 2015, the Group invested RMB1,236 million in stock market. These equity investments were classified as held for trading by management. As at the date of approval of these financial statements, the market value of these stocks was RMB880 million.

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24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		2015 RMB'000	2014 RMB'000
Cash and bank balances		**6,835,713**	8,468,197
Time deposits		**4,482,907**	6,398,810
		11,318,620	14,867,007
Less:	Pledged time deposits for bills payable	**(3,880,903)**	(4,128,768)
	Pledged time deposits for interest-bearing bank loans	**–**	(1,944,127)
		(3,880,903)	(6,072,895)
Cash and cash equivalents		**7,437,717**	8,794,112

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB11,014,524,000 (31 December 2014: RMB13,896,497,000). 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 earn interest at floating rates based on daily bank deposit rates. Short term deposits of the Group 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

	2015 **RMB'000**	2014 RMB'000
Trade payables	**6,375,469**	7,220,716
Bills payable	**12,915,462**	13,659,714
	19,290,931	20,880,430

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:

	2015 **RMB'000**	2014 RMB'000
Within 3 months	**10,976,395**	12,475,119
3 to 6 months	**7,211,206**	7,443,568
Over 6 months	**1,103,330**	961,743
	19,290,931	20,880,430

The Group's bills payable are secured by the pledge of certain of the Group's:

(i) time deposits (note 24);

(ii) inventories (note 19);

(iii) buildings (note 12); and

(iv) investment properties (note 13).

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

26. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 RMB'000
Customers' deposits	**448,289**	515,845
Deferred revenue *(note)*	**79,411**	78,172
Other payables and accruals	**2,064,286**	1,831,396
	2,591,986	2,425,413

Note:

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

	2015 RMB'000	2014 RMB'000
At 1 January	**78,172**	70,128
Arising during the year	**772,539**	954,566
Revenue recognised on utilised points	**(707,985)**	(902,194)
Revenue recognised on expired points	**(63,315)**	(44,328)
At 31 December	**79,411**	78,172

27. INTEREST-BEARING BANK LOANS

	2015 RMB'000	2014 RMB'000
Bank loans – secured	**971,512**	3,425,950

The bank loans as at 31 December 2015 comprised bank loan of USD149,205,000 (equivalent to RMB968,818,000) bearing interest at 3-month LIBOR plus 1.8% and bank loan of JPY50,000,000 (equivalent to RMB2,694,000) bearing fixed interest at 0.53%. Certain of the bank loans are secured by the Group's buildings (note 12) and investment properties (note 13).

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

28. ISSUED CAPITAL

Shares	**2015 HKS'000**	2014 HKS'000
Issued and fully paid:		
16,961,573,422 (2014: 16,959,228,422) ordinary shares HK$0.025 each	**424,040**	423,981

A summary of movements in the Company's share capital is as follows:

Shares	Number of shares '000	HK$'000	Equivalent to RMB'000
At 1 January 2014	16,875,056	421,877	421,551
2013 scrip dividend paid	158,699	3,967	3,149
Shares repurchased	(74,527)	(1,863)	(1,479)
At 31 December 2014 and 1 January 2015	16,959,228	423,981	423,221
Share options exercised (note 29)	2,345	59	47
At 31 December 2015	16,961,573	424,040	423,268

29. 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.

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29. SHARE OPTION SCHEME *(Continued)*

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.

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.

29. SHARE OPTION SCHEME *(Continued)*

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

	2015 Weighted average exercise price HK$ per share	**2015** Number of options '000	2014 Weighted average exercise price HK$ per share	2014 Number of options '000
At 1 January	**1.90**	**96,091**	1.90	97,952
Exercised during the year	**1.90**	**(2,345)**	1.90	–
Forfeited during the year	**1.90**	**–**	1.90	(1,360)
Expired during the year	**1.90**	**(2,669)**	1.90	(501)
At 31 December	**1.90**	**91,077**	1.90	96,091

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

2015 Number of options '000	**Exercise price*** HK$ per share	**Exercise period**
91,077	1.90	On or before 15 November 2016

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		

* 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.

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29. SHARE OPTION SCHEME *(Continued)*

Share option expense of RMB1,902,000 was recognised during the year ended 31 December 2015 (2014: RMB5,083,000). The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2015 was HK$2.25 per share.

At the end of the reporting period, the Company had 91,077,000 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 91,077,000 additional ordinary shares of the Company and additional share capital of HK$2,277,000 (equivalent to approximately RMB1,908,000) and share premium of HK$170,769,000 (equivalent to approximately RMB143,071,000) (before issue expenses).

At the date of approval of these consolidated financial statements, the Company had 85,550,000 share options outstanding under the Scheme, which represented approximately 0.38% of the Company's shares in issue as at that date.

30. RESERVES

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.

Share option reserve

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.

31. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

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

	2015	2014
Percentage of equity interest held by non-controlling interests:		
GOME-on-line	**40%**	40%

	2015 RMB'000	2014 RMB'000
Loss for the year allocated to non-controlling interests:		
GOME-on-line	**(266,752)**	(254,596)
Accumulated balances of non-controlling interests at the reporting dates:		
GOME-on-line	**(913,004)**	(646,252)

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

2015	**GOME-on-line RMB'000**
Revenue	**6,738,502**
Loss for the year	**(666,880)**
Total assets	**1,312,979**
Total liabilities	**(3,595,489)**
Net cash flows from operating activities	**146,223**
Net cash flows used in investing activities	**(106,770)**
Net increase in cash and cash equivalents	**39,453**

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

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32. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Interim:		
Cash dividend of HK$2.10 cents (equivalent to RMB1.62 fen) (2014: HK$2.10 cents (equivalent to RMB1.63 fen)) per ordinary share	**274,769**	277,044
Proposed final:		
Cash dividend of HK$1.50 cents (equivalent to RMB1.23 fen) (2014: Cash dividend of HK$1.80 cents (equivalent to RMB1.38 fen)) per ordinary share	**208,416**	234,864
	483,185	511,908

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

33. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(a) Operating lease arrangements

As lessee

The Group leases certain of its properties under operating lease arrangements. These have remaining lease terms 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:

	2015 RMB'000	2014 RMB'000
Within one year	**3,092,860**	2,919,815
In the second to fifth years, inclusive	**8,507,126**	8,056,776
After five years	**3,675,363**	3,206,863
	15,275,349	14,183,454

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.

At the end of the reporting period, the Group had the following future minimum rentals receivable under non-cancellable operating leases:

	2015 RMB'000	2014 RMB'000
Within one year	**290,894**	206,838
In the second to fifth years, inclusive	**728,825**	536,495
After five years	**208,200**	151,681
	1,227,919	895,014

(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:

	2015 RMB'000	2014 RMB'000
Contracted, but not provided for:		
Construction of property and equipment	**70,658**	74,385

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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	2015 RMB'000	2014 RMB'000
Sales to the Non-listed GOME Group*	*(i)*	**4,610,794**	1,523,642
Purchases from the Non-listed GOME Group	*(i)*	**1,023,620**	809,386
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)*	**132,760**	99,992
Service fee to GOME Ruidong (defined in (i) below)	*(iv)*	**6,737**	9,025

* 北京鵬潤投資有限公司 ("Beijing Eagle Investment Co., Ltd."), 國美地產控股有限公司 ("GOME Property Co., Ltd.") (formerly known as "Beijing Pengrun Property Co., Ltd."), 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." or "GOME Retail") and their respective subsidiaries of the forgoing companies and 北京國美投資有限公司 ("Beijing GOME Investment Co., Ltd.") are collectively referred to as the "Non-listed GOME Group". GOME Retail and its subsidiaries are engaged in the retail sale of electrical appliances and consumer electronic products under the trademark of "GOME Electrical Appliances" and related operations, mainly in cities other than the designated cities of the PRC in which the Group already 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.

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 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 ended 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 ended 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 30 December 2015, the Group renewed the lease agreements with Beijing Pengrun Property and Beijing GOME with respect to the continuous use of the properties. During the year ended 31 December 2015, the rental expenses incurred by the Group payable to Beijing Pengrun Property and Beijing GOME amounted to RMB116,992,000 (2014: RMB84,224,000) and RMB15,768,000 (2014: RMB15,768,000), respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

(iv) On 5 March 2013, the Group entered into (1) logistics services agreements for which GOME Ruidong and the Non-listed GOME Group would provide the logistics services (including warehousing and delivery of general merchandise to end customers) to Kuba and GOME on-line for a period of three years from 1 January 2013 to 31 December 2015, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended 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 would provide the after-sales services to Kuba and GOME on-line for a period of three years from 1 January 2013 to 31 December 2015, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended 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.

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34. RELATED PARTY TRANSACTIONS *(Continued)*

(a) The Group had the following ongoing transactions with related parties during the year: *(Continued)*

All of the 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 RMB116,992,000 (31 December 2014: RMB116,992,000) and RMB15,768,000 (31 December 2014: RMB15,768,000) under non-cancellable operating leases falling due within one year.

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

	2015 RMB'000	2014 RMB'000
Fees	**2,640**	3,967
Other emoluments:		
Salaries, allowances and other expense	**10,174**	8,884
Pension scheme contributions	**318**	210
Equity-settled share option expense	**838**	(483)
	13,970	12,578

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

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

2015

Financial assets

	Loans and receivables RMB'000	Financial assets at fair value through profit or loss RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	–	595,013	595,013
Equity investments at fair value through profit or loss	–	1,029,142	–	1,029,142
Trade and bills receivables	189,439	–	–	189,439
Financial assets included in prepayments, deposits and other receivables	952,407	–	–	952,407
Due from related companies	189,694	–	–	189,694
Pledged deposits	3,880,903	–	–	3,880,903
Cash and cash equivalents	7,437,717	–	–	7,437,717
	12,650,160	1,029,142	595,013	14,274,315

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank loans	971,512
Trade and bills payables	19,290,931
Financial liabilities included in customers' deposits, other payables and accruals	1,602,084
Due to related companies	1,028,149
	22,892,676

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35. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

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

36. 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:

	Carrying amounts		Fair values	
	2015 RMB'000	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
Financial assets				
Other investments	**595,013**	217,350	**595,013**	217,350
Equity investments at fair value through profit or loss	**1,029,142**	–	**1,029,142**	–
	1,624,155	217,350	**1,624,155**	217,350

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.

36. 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:

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Other investments	**595,013**	**–**	**–**	**595,013**
Equity investments at fair value through profit or loss	**1,029,142**	**–**	**–**	**1,029,142**
	1,624,155	**–**	**–**	**1,624,155**

As at 31 December 2014

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

During the year ended 31 December 2015, there were no transfers into or out of Level 1 and Level 2, and no transfers into or out of Level 3.

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 31 December 2015 and 31 December 2014.

37. 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 provide 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 2015, the Group had bank borrowings of RMB971,512,000 with floating interest rates (2014: RMB3,425,950,000).

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 basis point	**(Decrease)/ increase in profit before tax RMB'000**
2015		
If interest rate increases by	**5**	**(1,158)**
If interest rate decreases by	**(5)**	**1,158**

	Increase/ (decrease) in basis point	(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

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

As at 31 December 2015, the Group had cash and bank deposits of RMB304,096,000 (2014: RMB970,510,000) and interest-bearing bank loans of RMB971,512,000 (2014: RMB3,425,950,000), which were denominated in foreign currencies, mainly in 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**
2015		
If RMB weakens against USD	**5%**	**(37,818)**
If RMB strengthens against USD	**(5%)**	**37,818**
If RMB weakens against HK$	**5%**	**3,852**
If RMB strengthens against HK$	**(5%)**	**(3,852)**

	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 HK$	5%	5,669
If RMB strengthens against the HK$	(5%)	(5,669)

37. 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 20 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 2015, the Group had trade and bills payables amounting to RMB19,290,931,000 (31 December 2014: RMB20,880,430,000). In addition, as at 31 December 2015, the Group had interest-bearing bank loans amounting to RMB971,512,000 (31 December 2014: RMB3,425,950,000) 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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

	Within 1 year RMB'000
2015	
Interest-bearing bank loans	**971,512**
Trade and bills payables	**19,290,931**
Financial liabilities included in customers' deposits, other payables and accruals	**1,602,084**
Due to related companies	**1,028,149**
	22,892,676

	Within 1 year RMB'000
2014	
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

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) and also equity investments at fair value through profit or loss (note 23) as at 31 December 2015. The Group's listed investments are valued at market price as at 31 December 2015 and 31 December 2014.

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

	31 December 2015	**High/low 2015**	31 December 2014	High/low 2014
Shanghai – A Share Index	**3,539**	**5,178/ 2,851**	3,389	3,389/ 2,084
Shenzhen – A Share Index	**12,665**	**18,212/ 9,260**	11,015	11,050/ 6,959
Hong Kong – Hang Seng Index	**21,914**	**28,589/ 20,368**	23,605	25,363/ 21,138

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Equity price risk *(Continued)*

The following table demonstrates the sensitivity to 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
2015			
Investments listed in:			
Shanghai – Available-for-sale	**595,013**	**–**	**59,501**
Shanghai and Shenzhen – Equity investments at fair value through profit or loss	**877,567**	**87,757**	**–**
Hong Kong – Equity investments at fair value through profit or loss	**151,575**	**15,158**	**–**
	1,624,155	**102,915**	**59,501**
2014			
Investments listed in:			
Shanghai – Available-for-sale	217,350	–	21,735
	217,350	–	21,735

* Excluding retained earnings

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37. 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:

	2015 **RMB'000**	2014 RMB'000
Interest-bearing bank loans	**971,512**	3,425,950
Due to related companies	**1,028,149**	521,213
Trade and bills payables	**19,290,931**	20,880,430
Customers' deposits, other payables and accruals	**2,591,986**	2,425,413
Less: Cash and cash equivalents	**(7,437,717)**	(8,794,112)
Pledged deposits	**(3,880,903)**	(6,072,895)
Net debt	**12,563,958**	12,385,999
Equity attributable to owners of the parent	**17,825,949**	16,905,916
Total capital	**17,825,949**	16,905,916
Capital and net debt	**30,389,907**	29,291,915
Gearing ratio	**41%**	42%

38. EVENTS AFTER THE REPORTING PERIOD

On 23 June 2015, the Group entered into an agreement with 北京戰聖投資有限公司 ("Beijing Zhansheng Investment Co., Ltd." or "Beijing Zhansheng"), under which the Group agreed to acquire from Beijing Zhansheng the sale shares at a consideration of approximately RMB3.83 billion subject to any adjustments based on the adjusting clauses of the agreement. The sale shares represent 100% of the 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." or "Dazhong"). On 31 March 2016, the condition precedent has been satisfied and the acquisition has been completed. Reference is also made to the announcement of the Company dated 6 December 2015, as a result of the completion of the acquisition of Dazhong, the loan in the amount of RMB3.6 billion advanced by 天津國美商業管理諮詢有限公司 ("Tianjin GOME Commercial Consultancy Company Limited" or "Tianjin Consultancy") to Beijing Zhansheng has been repaid to Tianjin Consultancy in full and the pledges under the Beijing Zhansheng Share Pledge Agreement and the Dazhong Share Pledge Agreement have been released. The Group has been managing the operation of Dazhong and has captured all of the economic interest of Dazhong since 2007 through the loan and the Management Agreement. The Board considers that completion signifies a formalised ownership of the Group in Dazhong.

On 17 July 2015, the Group and GOME Management Ltd. (the "Vendor"), entered into an acquisition agreement, pursuant to which the Group has conditionally agreed to purchase the sale shares from the Vendor, representing the entire issued capital of Artway Development Limited, (the "Target"), from the Vendor for HK$11,268,000,000 (subsequently reduced to HK$9,095,000,000 pursuant to a supplemental agreement entered on 28 October 2015), subject to adjustment based on the audited consolidated statement of financial position of the Target as at 30 June 2015. The Target and its subsidiaries are engaged in the retail sale of electrical appliances and consumer electronic products and related operations. The Vendor is an associate of Mr. Wong, the controlling shareholder of the Group, and hence a connected person of the Group under the Listing Rules. The acquisition constitutes a major and connected transaction for the Company under the Listing Rules which requires the approval of the independent shareholders by poll. On 22 January 2016, the acquisition was approved at the Company's Special General Meeting. As all conditions precedent to the completion have been satisfied, the acquisition has been completed on 31 March 2016.

On 6 January 2016, the Company announced that 中國證券監督管理委員會 ("China Securities Regulatory Commission") has approved the application of 國美電器有限公司 ("GOME Appliance Company Limited"), a company established in the PRC and wholly-owned subsidiary of the Company (the "Issuer") for the proposed issue of domestic corporate bonds of up to RMB5,000,000,000 (the "Domestic Bonds") to qualified investors in tranches. On 11 January 2016 and 1 February 2016, the Issuer issued the first and second tranche of Domestic Bonds with principal amount of RMB3,000,000,000 and RMB300,000,000, respectively. These Domestic Bonds are unsecured, have a 6-year period and bear fixed coupon rate at 4.0% attaching options that the Issuer shall be entitled to adjust the coupon rate and the investors shall be entitled to sell back at the end of the third year.

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39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**5,389,943**	5,389,943
Total non-current assets	**5,389,943**	5,389,943
CURRENT ASSETS		
Amounts due from subsidiaries	**5,924,148**	5,996,694
Prepayments and other receivables	**3,337**	1,412,215
Equity investments at fair value through profit or loss	**151,575**	–
Cash and cash equivalents	**142,645**	964,068
Total current assets	**6,221,705**	8,372,977
CURRENT LIABILITIES		
Interest-bearing bank loans	**968,818**	3,425,950
Other payables and accruals	**6,753**	14,218
Amounts due to subsidiaries	**1,096,942**	762,589
Total current liabilities	**2,072,513**	4,202,757
NET CURRENT ASSETS	**4,149,192**	4,170,220
TOTAL ASSETS LESS CURRENT LIABILITIES	**9,539,135**	9,560,163
Net assets	**9,539,135**	9,560,163
EQUITY		
Issued capital	**423,268**	423,221
Reserves (note)	**9,115,867**	9,136,942
Total equity	**9,539,135**	9,560,163

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Contributed surplus RMB'000 Note (i)	Capital reserve RMB'000	Share option reserve RMB'000 Note (ii)	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2014	9,461,244	42,849	(1,063,814)	157,953	(49,695)	52,791	8,601,328
Issued script dividend	161,375	–	–	–	–	–	161,375
Share repurchase	(79,526)	–	–	–	–	–	(79,526)
Profit for the year and total comprehensive income for the year	–	–	–	–	–	492,337	492,337
2014 interim dividend paid	–	–	–	–	–	(277,044)	(277,044)
Compensation received	–	–	233,389	–	–	–	233,389
Equity-settled share option arrangements	–	–	–	5,083	–	–	5,083
At 31 December 2014 and 1 January 2015	**9,543,093**	**42,849**	**(830,425)**	**163,036**	**(49,695)**	**268,084**	**9,136,942**
Profit for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**483,186**	**483,186**
Exercise of share options	**5,025**	**–**	**–**	**(1,555)**	**–**	**–**	**3,470**
2014 dividend paid	**–**	**–**	**–**	**–**	**–**	**(234,864)**	**(234,864)**
2015 interim dividend paid	**–**	**–**	**–**	**–**	**–**	**(274,769)**	**(274,769)**
Equity-settled share option arrangements	**–**	**–**	**–**	**1,902**	**–**	**–**	**1,902**
At 31 December 2015	**9,548,118**	**42,849**	**(830,425)**	**163,383**	**(49,695)**	**241,637**	**9,115,867**

Notes:

(i) 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.

(ii) 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.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 31 March 2016.

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