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## **GOME ELECTRICAL APPLIANCES HOLDING LIMITED**

**國美電器控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 493)

**Financial adviser to GOME Electrical Appliances Holding Limited**

**CAZENOVE**

Cazenove Asia Limited

### **ANNOUNCEMENT CONNECTED TRANSACTION**

On 28 August 2008, the Purchaser has entered into the Sale and Purchase Agreements with the Vendors pursuant to which the Purchaser agreed to acquire and the Vendors agreed to sell, in aggregate, 10% in the registered share capital of Yongle (China) for a total sum of RMB811,080,800.

On 28 August 2008, the Purchaser and the Vendors have entered into the Control Arrangements, pursuant to which (1) the Purchaser agreed to provide loans in the total amount of RMB653,422,662 to the Vendors (other than Shanghai Hegui) pursuant to the Loan Agreements which will be secured by the Equity Pledge and a personal guarantee from Mr. Chen; (2) the Vendors agreed to exercise the voting rights attaching to their 10% interests in Yongle (China) as the Purchaser may direct and account to the Purchaser all their entitlements to the dividends and other distributions declared by Yongle (China) pursuant to the terms of the Entrustment Agreements; and (3) the Vendors has also granted to the Purchaser an exclusive option to acquire all or any part of the 10% in the registered share capital of Yongle (China) from the Vendors for RMB811,080,800 or a proportional sum of RMB811,080,800 pursuant to the Option Agreements.

On 28 August 2008, the Purchaser has entered into the Equity Transfer Agreements with the Vendors (other than Shanghai Hegui) pursuant to which the Purchaser agreed to acquire and the Vendors (other than Shanghai Hegui) agreed to sell, in aggregate, 1% in the registered share capital of Minrong for a total sum of RMB1,000,000.

Mr. Chen is a Director and thus a connected person of the Company. Accordingly, the Transaction Agreements entered into between Mr. Chen and the Purchaser constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As each of the applicable ratios (other than the profits ratio) under Chapter 14 of the Listing Rule is more than 0.1% but less than 2.5%, the transactions under the relevant Sale and Purchase Agreement and the Equity Transfer Agreement entered into between Mr. Chen and the Purchaser, and the transactions under the relevant Loan Agreement entered into between Mr. Chen and the Purchaser will be exempt under Rules 14A.32 and 14A.66(2) of the Listing rules, respectively from the independent shareholders' approval requirement but subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

The guarantee provided by Mr. Chen in favour of the Purchaser pursuant to the Guarantee Agreement would constitute the provision of financial assistance by a connected person for the benefit of the Group and would therefore be exempt under Rule 14A.65(4) of the Listing Rules, from all reporting, announcement and independent Shareholders' approval requirements.

The Yongle (China) Transaction and the Minrong Transaction are not inter-conditional and do not constitute discloseable transaction of the Company within the meaning of the Listing Rules.

The grant of the Purchase Options by the Vendors does not constitute a notifiable transaction of the Company within the meaning of the Listing Rules. The Company will comply with the requirements of Chapter 14 and Chapter 14A of the Listing Rules if and when the Purchase Options are exercised.

## **YONGLE (CHINA) TRANSACTION**

### **SALE AND PURCHASE AGREEMENTS**

#### **Date**

28 August 2008

#### **Parties**

- (1) each of the Vendors; and
- (2) the Purchaser.

Mr. Chen is a Director and thus a connected person of the Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save for Mr. Chen, the Vendors are independent of and not connected with the Company or any of its connected person.

Mr. Chen, Ms. Shu Wei, Mr. Liu Hui, Mr. Yuan Yashi and Shanghai Hegui are interested in approximately 7.25%, 1.31%, 0.98%, 0.45% and 0.01% in the registered capital of Yongle (China), respectively. The original cost of the equity interest of Yongle (China) for Mr. Chen, Ms. Shun Wei, Mr. Liu Hui, Mr. Yuan Yashi and Shanghai Hegui was RMB15,948,456, RMB2,882,697, RMB2,149,641, RMB998,235 and RMB22,001, respectively.

None of the Vendors authorized Mr. Chen to negotiate or conclude the Sale and Purchase Agreements on their behalves. Each of the relevant Vendors (including Mr. Chen) reviewed and commented on the relevant Sale and Purchase Agreement. The terms of the relevant Sale and Purchase Agreement have been agreed upon by each of the Vendors.

## **Principal Terms**

The Vendors agreed to sell and the Purchaser agreed to acquire a total of 10% interest in the registered capital of Yongle (China) for a total sum of RMB811,080,800, which was determined with reference to (1) 2007 price to earnings ratio of the Group and Yongle (China), being approximately 32.5 and 21.5, respectively and the 2007 price to sales ratio of the Group and Yongle (China), being approximately 0.86 and 0.63, respectively and (2) market value of other Hong Kong and PRC listed companies that engage in retail chain business.

The consideration is to be paid in cash which shall be partially set off against the loans to be provided to the Vendors (other than Shanghai Hegui) under the Loan Agreements upon completion of the Yongle (China) Transaction. The consideration will be funded by the Group's internal resources. The consideration was determined after arm's length negotiation between the Vendors and the Purchaser.

## **Conditions**

The Purchaser and the relevant Vendor agreed that, completion of the Yongle (China) Transaction is conditional upon the fulfillment of the following conditions:

- (1) the obtaining of all necessary approvals from governmental and regulatory authorities relating to the Yongle (China) Transaction;
- (2) the relevant Vendor obtaining all third party consents relating to the Yongle (China) Transaction (including the consents from all the shareholders of Yongle (China) who have pre-emptive rights to acquire the equity interest and parties to which the relevant Vendor may be bound by contractual obligations); and
- (3) the relevant Vendor and the Purchaser, in accordance with the applicable laws and their respective articles of association, obtaining the necessary governmental approvals and internal approvals for the Yongle (China) Transaction.

The relevant Vendor and/or the Purchaser (with respect to the condition set out in paragraph (2) above, the Purchaser and with respect to the condition set out in paragraph (3) above, the relevant Vendor and the Purchaser jointly) may at any time waive the conditions set out in paragraphs (2) and (3) above.

The parties agreed that the above conditions must be fulfilled or waived on a day falling within 60 days after the fulfillment of the condition set out in paragraph (1) above (or such date as may be agreed between the relevant Vendor and the Purchaser).

Upon completion of the Shares Sale Transaction, Yongle (China) will become an indirect wholly owned subsidiary of the Company.

The Sale and Purchase Agreements are not inter-conditional.

## **CONTROL ARRANGEMENTS**

### **(1) LOAN AGREEMENTS**

#### **Date**

28 August 2008

#### **Parties**

- (1) the Purchaser as lender; and
- (2) each of the Vendors (other than Shanghai Hegui) as borrower.

#### **Principal Terms**

The Purchaser will provide the Vendors with non-interest bearing loans in the total amount of RMB653,422,662. The loan shall be repayable in full by the Vendors (other than Shanghai Hegui) to the Purchaser on the completion date of the Yongle (China) Transaction. Early repayment of the loans under the Loan Agreements could not be made without the prior written consent from the Purchaser.

The following loans will be made available to the Vendors (other than Shanghai Hegui) within a period of 60 days after the signing of the Loan Agreements (or such other period agreed between the Vendors (other than Shanghai Hegui) and the Purchaser):

- (1) an amount of RMB474,360,090 to Mr. Chen;
- (2) an amount of RMB85,594,353 to Ms. Shu Wei;
- (3) an amount of RMB63,828,156 to Mr. Liu Hui; and
- (4) an amount of RMB29,640,063 to Mr. Yuan Yashi.

Each of the loan will be set off against the equivalent amount from the purchase price to be received by the relevant Vendor (other than Shanghai Hegui) under the Sale and Purchase Agreement or the consideration to be received by the relevant Vendor under the Option Agreements, as the case may be.

The Loan Agreements are not subject to any conditions precedent and are not inter-conditional.

## **(2) GUARANTEE AGREEMENT**

### **Date**

28 August 2008

### **Parties**

Mr. Chen acting as a guarantor in favour of the Purchaser.

### **Principal Terms**

Mr. Chen will provide a personal guarantee in favour of the Purchaser in respect of all the obligations of the Vendors (other than Shanghai Hegui) under the Loan Agreements. The maximum liability of Mr. Chen under the Guarantee Agreement shall not exceed the aggregate amount of (i) the aggregate principal sum of RMB653,422,662 under the Loan Agreements; and (ii) damages and expenses incurred by the Purchaser in enforcing the Guarantee Agreement. The guarantee will be released upon the settlement of the loans under the Loan Agreements at the completion of the Yongle (China) Transaction. No security over the assets of the Company and its subsidiaries is granted in respect of the guarantee pursuant to the Guarantee Agreement.

The Guarantee Agreement is not subject to any conditions precedent.

## **(3) EQUITY PLEDGE AGREEMENTS**

### **Date**

28 August 2008

### **Parties**

- (1) the Purchaser as pledgee; and
- (2) each of the Vendors as pledgor.

### **Principal Terms**

The Vendors will, in aggregate, pledge to the Purchaser the 10% interest in the registered capital of Yongle (China) as security for their obligations and performance under the Loan Agreements. Each of the Equity Pledge Agreement is conditional upon approval by the relevant government authority in the PRC. Each of the Equity Pledge Agreement will terminate upon the settlement of the loan under the corresponding Loan Agreement at the completion of the Yongle (China) Transaction to which the relevant Vendor is a party.

The Equity Pledge Agreements are not subject to any conditions precedent or inter-conditional.

#### **(4) ENTRUSTMENT AGREEMENTS**

##### **Date**

28 August 2008

##### **Parties**

- (1) the Purchaser; and
- (2) each of the Vendors.

##### **Principal Terms**

Each of the Vendors agrees to appoint the Purchaser as his/her/its sole and exclusive attorney which is entrusted to exercise the voting rights attaching to his/her/its interest in the registered capital of Yongle (China) (which, in aggregate, amount to 10% interest in the registered capital of Yongle (China)) at the sole discretion of the Purchaser. Each of the Entrustment Arrangements will terminate upon the settlement of the loan under the corresponding Loan Agreement at the completion of the Yongle (China) Transaction to which the relevant Vendor is a party.

The Entrustment Agreements are not subject to any conditions precedent or inter-conditional.

#### **(5) OPTION AGREEMENTS**

##### **Date**

28 August 2008

##### **Parties**

- (1) the Vendors as grantors; and
- (2) the Purchaser as grantee.

##### **Principal Terms**

The Vendors irrevocably grant to the Purchaser options (the “**Purchase Options**”), on an exclusive basis, for the Purchaser or any party(ies) designated by the Purchaser to acquire all or any part of the 10% interest in the registered capital of Yongle (China) held by the Vendors.

The consideration for acquiring the 10% interest in the registered capital of Yongle (China) under the Purchase Options shall be RMB811,080,800 or a proportional sum of RMB811,080,800 if only part of the 10% interest in the registered capital of Yongle (China) is acquired by the Purchaser, unless such consideration is otherwise determined in accordance with the PRC law or agreed between the Vendors and the Purchaser. In the event that a valuation has to be conducted to determine the value of the interest pursuant to the PRC law, the consideration shall be the higher of the above amount or 90% of the value of the interest in the registered capital of Yongle (China) as determined by an independent valuer appointed by the Purchaser.

Under the Option Agreements, no premium is payable by the Purchaser to the Vendors for the grant of the Purchase Options. The Option Agreements are unconditional and have become effective upon signing.

Subject to the requirements under PRC law, the Purchaser may exercise the Purchase Options at any time during the term of the Option Agreements as it deems appropriate. The Purchase Options will terminate upon agreement by the parties thereto.

## **MINRONG TRANSACTION**

### **EQUITY TRANSFER AGREEMENTS**

#### **Date**

28 August 2008

#### **Parties**

- (1) each of the Vendors (other than Shanghai Hegui); and
- (2) the Purchaser

Mr. Chen is a Director and thus a connected person of the Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save for Mr. Chen, the Vendors are independent of and not connected with the Company or any of its connected person.

Mr. Chen, Ms. Shu Wei, Mr. Liu Hui and Mr. Yuan Yashi are interested in approximately 0.726%, 0.131%, 0.098% and 0.045% in the registered capital of Minrong, respectively. The original cost of the equity interest of Minrong for Mr. Chen, Ms. Shu Wei, Mr. Liu Hui, and Mr. Yuan Yashi was RMB580,717, RMB104,821, RMB78,165 and RMB36,297, respectively.

None of the Vendors (other than Shanghai Hegui) authorized Mr. Chen to negotiate or conclude the Equity Transfer Agreements on their behalves. Each of the relevant Vendor (including Mr. Chen) reviewed and commented on the relevant Equity Transfer Agreement. The terms of the relevant Equity Transfer Agreement have been agreed upon by each of the Vendors.

### **Principal Terms**

The Vendors (other than Shanghai Hegui) agreed to sell and the Purchaser agreed to acquire a total of 1% interest in the registered capital of Minrong for a total sum of RMB1,000,000, to be paid in cash within seven business days upon completion of the registration procedures at the relevant administration for industry and commerce. The consideration was determined with reference to the net asset value of Minrong as at 31 December 2007. The consideration will be funded by the Group's internal resources. The consideration was determined after arm's length negotiation between the Vendors (other than Shanghai Hegui) and the Purchaser.

Upon completion of the Yongle (China) Transaction and the Minrong Transaction, Minrong will become an indirect wholly owned subsidiary of the Company.

The Equity Transfer Agreements are not inter-conditional.

### **REASONS FOR THE YONGLE (CHINA) TRANSACTION, THE CONTROL ARRANGEMENTS AND THE MINRONG TRANSACTION**

The Group currently holds a 90% interest in the registered capital of in Yongle (China). By completing the Yongle (China) Transaction, the Group will have 100% control in Yongle (China) and enjoy the benefits of all the economic interests derived from Yongle (China). By entering into the Control Arrangements, the Group will be able to immediately secure 100% control in Yongle (China) and enjoy the benefits of all the economic interests derived from Yongle (China). Yongle (China) currently holds a 99% interest in the registered capital of Minrong. By completing the Yongle (China) and Minrong Transaction, the Group will have 100% control in Minrong and enjoy the benefits of all the economic benefits derived from Minrong. The Yongle (China) Transaction, the Control Arrangements and the Minrong Transaction will then optimize the synergies among the Group, Yongle (China) and Minrong through the allocation of resources.

### **IMPLICATIONS UNDER THE LISTING RULES**

As each of the applicable ratios (other than the profits ratio) under Chapter 14 of the Listing Rule is more than 0.1% but less than 2.5%, the transactions under the relevant Sale and Purchase Agreement and the Equity Transfer Agreement entered into between Mr. Chen and the Purchaser, and the transactions under the relevant Loan Agreement entered into between Mr. Chen and the Purchaser will be exempt under Rules 14A.32 and 14A.66(2) of the Listing Rules, respectively from the independent shareholders' approval requirement but subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

The Yongle (China) Transaction and the Minrong Transaction are not inter-conditional and do not constitute a discloseable transaction of the Company within the meaning of the Listing Rules.

The guarantee provided by Mr. Chen in favour of the Purchaser pursuant to the Guarantee Agreement would constitute the provision of financial assistance by a connected person for the benefit of the Group and would therefore be exempt under Rule 14A.65(4) of the Listing Rules, from all reporting, announcement and independent Shareholders' approval requirements since the guarantee is provided on normal commercial terms and no security over the assets of the Company and its subsidiaries are granted in respect of the guarantee.

There are no prior transactions with the Vendors which require aggregation under Rule 14A.25 of the Listing Rules.

The grant of the Purchase Options does not constitute a notifiable transaction of the Company within the meaning of the Listing Rules. The Company will comply with the requirements of Chapter 14 and Chapter 14A of the Listing Rules if and when the Purchase Options are exercised.

## **GENERAL**

The Group (including Yongle (China), Minrong and their subsidiaries) is principally engaged in the retailing of electrical appliances and electronic consumer products.

As at the date of this announcement, Shanghai Hegui does not engage in any business undertakings.

The consolidated unaudited consolidated net profit/(loss) before taxation of Yongle (China) as shown in its management accounts prepared in accordance with IFRS for the two years ended 31 December 2006 and 31 December 2007 amounted to RMB(490,827,237) and RMB454,313,459, respectively. The consolidated unaudited net profit/(loss) after taxation of Yongle (China) as shown in its management accounts prepared in accordance with IFRS for the year ended 31 December 2006 and 31 December 2007 amounted to RMB(535,655,274) and RMB378,567,643 respectively. The consolidated unaudited net assets value of Yongle (China) as shown in its management accounts prepared in accordance with IFRS as at 31 December 2006 and 31 December 2007 amounted to RMB251,326,339 and RMB629,893,982 respectively.

The consolidated unaudited consolidated net profit/(loss) before taxation of Minrong as shown in its management accounts prepared in accordance with IFRS for the two years ended 31 December 2006 and 31 December 2007 amounted to RMB(2,306,848) and RMB(147,957), respectively. The consolidated unaudited net profit/(loss) after taxation of Minrong as shown in its management accounts prepared in accordance with IFRS for the year ended 31 December 2006 and 31 December 2007 amounted to RMB(2,306,848) and RMB(147,957), respectively. The consolidated unaudited net assets value of Minrong as shown in its management accounts prepared in accordance with IFRS as at 31 December 2006 and 31 December 2007 amounted to RMB80,865,913 and RMB80,717,956, respectively.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save for Mr. Chen, the Vendors are independent of and not connected with the Company or any of its connected person.

The Directors (including the independent non-executive Directors) consider that each of the Yongle (China) Transaction, the Control Arrangements and the Minrong Transaction has been entered into in the usual and ordinary course of business of the Group. They are also of the view that the terms of the Yongle (China) Transaction, the Control Arrangements and the Minrong Transaction have been negotiated on an arm's length basis and on normal commercial terms between the Company and the relevant parties, and are fair and reasonable and in the best interests of the Group and the Shareholders as a whole.

## DEFINITIONS

“Board”	:	the board of directors of the Company;
“Company”	:	GOME Electrical Appliances Holding Limited, a company incorporated in Bermuda and whose shares are listed on the main board of the Stock Exchange;
“Control Arrangements”	:	the transactions as contemplated under the Loan Agreements, the Guarantee Agreements, the Equity Pledge Agreements, the Entrustment Agreements and the Option Agreements;
“Directors”	:	directors of the Company;
“Equity Pledge”	:	the equity pledge under the Equity Pledge Agreements;
“Equity Pledge Agreements”	:	the five agreements dated 28 August 2008 entered into between the Vendors and the Purchaser, the details of which are set out in the section headed “Control Arrangements – Equity Pledge Agreements” in this Announcement;
“Equity Transfer Agreements”	:	the four agreements dated 28 August 2008 entered into between the Purchaser and each of the Vendors (other than Shanghai Hegui), the details of which are set out in the section headed “Minrong Transaction” in this Announcement;
“Entrustment Agreements”	:	the five agreements dated 28 August 2008 and entered into between the Purchaser and the Vendors, the details of which are set out in the section headed “Control Arrangements – Entrustment Agreements” in this Announcement;
“Entrustment Arrangement”	:	the arrangement under the Entrustment Agreements;

“Group”	:	the Company and its subsidiaries (including Yongle (China) and Minrong);
“Guarantee Agreement”	:	the agreement dated 28 August 2008 entered into between the Purchaser and Mr. Chen, the details of which are set out in the section headed “Control Arrangements – Guarantee Agreement” in this Announcement;
“IFRS”	:	International Financial Reporting Standards;
“Listing Rules”	:	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
“Loan Agreements”	:	the four agreements dated 28 August 2008 and entered into between the Purchaser and each of the Vendors (other than Shanghai Hegui), the details of which are set out in the section headed “Control Arrangements – Loan Agreements” in this Announcement;
“Minrong”	:	上海民融投資有限公司 (Shanghai Minrong Investment Co., Ltd.) a company incorporated with limited liability under the laws of the PRC;
“Minrong Transaction”	:	the transactions contemplated under the Equity Transfer Agreements;
“Mr. Chen”	:	Mr. Chen Xiao, a Director;
“Option Agreements”	:	the five agreements dated 28 August 2008 and entered into between the Purchaser and the Vendors, the details of which are set out in the section headed “Control Arrangements – Option Agreements” in this announcement;
“PRC”	:	the People’s Republic of China;
“Purchase Options”	:	the options granted by the Vendors to the Purchaser under the Option Agreements;
“Purchaser”	:	北京國美恒信商貿有限公司, a wholly-owned subsidiary of the Company and a company incorporated with limited liability under the laws of the PRC;
“RMB”	:	Renminbi, the lawful currency of the People’s Republic of China;

- “Sale and Purchase Agreements” : the five agreements dated 28 August 2008 entered into between the each of Vendors and the Purchaser, the details of which are set out in the section headed “Yongle (China) Transaction” in this Announcement;
- “Shanghai Hegui” : 上海和貴物業管理有限公司 (Shanghai Hegui Property Management Co., Ltd.), being one of the Vendors;
- “Shareholders” : shareholders of the Company;
- “Stock Exchange” : The Stock Exchange of Hong Kong Limited;
- “Transaction Agreements” : the Sale and Purchase Agreements, the Loan Agreements, the Guarantee Agreements, the Equity Pledge Agreements, the Entrustment Agreements, the Option Agreements; and the Equity Transfer Agreements;
- “Vendors” : Mr. Chen, Ms. Shu Wei, Mr. Liu Hui, Mr. Yuan Yashi and Shanghai Hegui;
- “Yongle (China)” : 永樂(中國)電器銷售有限公司 (Yongle (China) Electronics Retail Company Limited), a company incorporated with limited liability under the laws of the PRC; and
- “Yongle (China) Transaction” : the transactions contemplated under the Sale and Purchase Agreement.

By Order of the Board  
**GOME Electrical Appliances Holding Limited**  
**Du Juan**  
*Executive Director*

Hong Kong, 28 August 2008

*As at the date of this announcement, the executive Directors are Mr. Wong Kwong Yu, Ms. Du Juan, Mr. Ng Kin Wah and Mr. Chen Xiao; the non-executive Director is Mr. Sun Qiang Chang; and the independent non-executive Directors are Mr. Sze Tsai Ping, Michael, Mr. Chan Yuk Sang, Mr. Mark Christopher Greaves, Dr. Liu Peng Hui, Mr. Yu Tung Ho and Mr. Thomas Joseph Manning*

\* *For identification purposes only*