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GOME ELECTRICAL APPLIANCES HOLDING LIMITED

國美電器控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 493)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

2009 FINANCIAL HIGHLIGHTS

- All businesses achieved healthy and sustainable growth, and the plans made in the beginning of the year were well implemented
- Due to the global financial crisis and the strategic reduction in the number of stores during the year, revenue for the year amounted to RMB42,668 million
- Consolidated gross profit margin (gross profit margin plus other income margin) rose from 16.94% to 17.32%
- Profit attributable to equity holders of the parent company increased from RMB1,048 million to RMB1,409 million representing a year-on-year increase of 34.45%
- The basic earnings per share were RMB0.103, up 25.61% from RMB0.082 last year

The board of directors (the “Board”) of GOME Electrical Appliances Holding Limited (the “Company”) announces the audited results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2009 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Revenue	4	42,667,572	45,889,257
Cost of sales		<u>(38,408,042)</u>	<u>(41,381,223)</u>
Gross profit		4,259,530	4,508,034
Other income and gain	4	3,131,646	3,266,244
Selling and distribution costs		(4,352,350)	(4,487,131)
Administrative expenses		(845,235)	(828,028)
Other expenses		<u>(490,062)</u>	<u>(515,357)</u>
Profit from operating activities		1,703,529	1,943,762
Finance costs	6	(348,969)	(212,118)
Finance income	6	341,209	441,017
Gain/(loss) on the derivative component of convertible bonds	11(i)	136,740	(189,220)
Impairment of other investments	12	<u>–</u>	<u>(449,592)</u>
Profit before tax	7	1,832,509	1,533,849
Income tax expense	8	<u>(406,310)</u>	<u>(435,156)</u>
Profit for the year		<u>1,426,199</u>	<u>1,098,693</u>
Attributable to:			
Owners of the parent		1,409,288	1,048,160
Minority interests		<u>16,911</u>	<u>50,533</u>
		<u>1,426,199</u>	<u>1,098,693</u>
Earnings per share attributable to ordinary equity holders of the parent	10		
– Basic		<u>RMB10.3 fen</u>	<u>RMB8.2 fen</u>
– Diluted		<u>RMB9.5 fen</u>	<u>RMB8.2 fen</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Profit for the year		<u>1,426,199</u>	<u>1,098,693</u>
Other comprehensive income			
Available-for-sale assets:			
Changes in fair value		44,550	(434,742)
Reclassification adjustments for impairment losses of other investments included in the consolidated income statement	7	<u>—</u>	<u>449,592</u>
		44,550	14,850
Gains on property revaluation		98,253	32,425
Income tax effect		<u>(24,563)</u>	<u>(8,106)</u>
		73,690	24,319
Exchange differences on translation of foreign operations		<u>(20,804)</u>	<u>(101,617)</u>
Other comprehensive income/(loss) for the year, net of tax		<u>97,436</u>	<u>(62,448)</u>
Total comprehensive income for the year		<u>1,523,635</u>	<u>1,036,245</u>
Attributable to:			
Owners of the parent		1,506,724	985,712
Minority interests		<u>16,911</u>	<u>50,533</u>
		<u>1,523,635</u>	<u>1,036,245</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment		3,391,950	3,719,829
Investment properties		820,671	389,473
Goodwill		4,014,981	3,363,012
Other intangible assets		125,199	134,241
Other investments	12	153,360	108,810
Prepayments for acquisition of properties		21,129	270,160
Lease prepayments		332,407	355,089
Deferred tax assets		30,763	18,356
Designated loan	13	3,600,000	—
Other assets		—	653,423
Total non-current assets		<u>12,490,460</u>	<u>9,012,393</u>
Current assets			
Hong Kong listed investments, at fair value		1,635	399
Investment deposits		—	30,000
Designated loan	13	—	3,600,000
Inventories		6,532,453	5,473,497
Trade and bills receivables		54,199	45,092
Prepayments, deposits and other receivables		1,701,884	1,384,355
Due from related parties		157,146	57,843
Pledged deposits		8,796,344	4,840,456
Cash and cash equivalents		<u>6,029,059</u>	<u>3,051,069</u>
Total current assets		<u>23,272,720</u>	<u>18,482,711</u>
Current liabilities			
Interest-bearing bank loans		350,000	170,000
Trade and bills payables	14	15,815,261	12,917,958
Customers' deposits, other payables and accruals		1,829,514	1,530,141
Convertible bonds	11	2,180,357	—
Tax payable		<u>507,245</u>	<u>529,148</u>
Total current liabilities		<u>20,682,377</u>	<u>15,147,247</u>
Net current assets		<u>2,590,343</u>	<u>3,335,464</u>
Total assets less current liabilities		<u>15,080,803</u>	<u>12,347,857</u>
Non-current liabilities			
Deferred tax liabilities		103,429	78,269
Convertible bonds	11	<u>3,174,909</u>	<u>3,569,553</u>
Total non-current liabilities		<u>3,278,338</u>	<u>3,647,822</u>
Net assets		<u><u>11,802,465</u></u>	<u><u>8,700,035</u></u>
Equity			
Equity attributable to owners of the parent			
Issued capital		382,408	331,791
Reserves		<u>11,420,057</u>	<u>8,228,043</u>
		<u>11,802,465</u>	<u>8,559,834</u>
Minority interests		—	140,201
Total equity		<u><u>11,802,465</u></u>	<u><u>8,700,035</u></u>

Notes:

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for Hong Kong listed investments, investment properties, other investments which classified as available-for-sale financial assets and the derivative components of the convertible bonds, 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.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year’s financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised IFRs has had no significant effect on these financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 <i>First-time Adoption of IFRSs</i> and IAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
IFRS 2 Amendments	Amendments to IFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments</i>
IFRS 8	<i>Operating Segments</i>
IAS 1 (Revised)	<i>Presentation of Financial Statements</i>
IAS 18 Amendment*	Amendment to Appendix to IAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
IAS 23 (Revised)	<i>Borrowing Costs</i>
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 <i>Reassessment of Embedded Derivatives</i> and IAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
IFRIC 13	<i>Customer Loyalty Programmes</i>
IFRIC 15	<i>Agreements for the Construction of Real Estate</i>
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
IFRIC 18	<i>Transfers of Assets from Customers</i> (adopted from 1 July 2009)
Improvements to IFRSs (October 2008)	Amendments to a number of IFRSs

* Included in *Improvements to IFRSs 2009* (as issued in April 2009).

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

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

(a) *Amendments to IFRS 7 Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments*

The IFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

(b) *IFRS 8 Operating Segments*

IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purpose of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group's segment information is disclosed in note 5 to the financial statements.

(c) *IAS 1 (Revised) Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(d) *IAS 23 (Revised) Borrowing Costs*

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group has adopted the revised standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(e) IFRIC 13 *Customer Loyalty Programmes*

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. The Group's current accounting policy aligns with the requirement of this interpretation.

(f) Improvements to IFRSs

In May 2008, the IASB issued its first *Improvements to IFRSs* which sets out amendments to a number of IFRSs. Except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes to accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the statement of financial position.
- IAS 16 *Property, Plant and Equipment*: Replaces the term “net selling price” with “fair value less costs to sell” and states that the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

4. REVENUE, OTHER INCOME AND GAIN

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

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

	<i>Notes</i>	2009 RMB'000	2008 RMB'000
Revenue			
Sale of electrical appliances and consumer electronic products		42,667,572	45,889,257
Other income			
Income from suppliers		2,221,466	2,519,137
Management fees:			
– from the Non-listed GOME Group	(i)	233,541	250,000
– from Dazhong Appliances	(ii)	25,496	23,799
Management fees for air-conditioner installation		98,290	97,992
Rental income		127,610	125,045
Government grants	(iii)	93,497	52,371
Other service fee income		102,177	98,243
Compensation income from a landlord		59,271	–
Others		89,057	99,657
		3,050,405	3,266,244
Gains			
Gain on repurchases of the Old 2014 Convertible Bonds	11(i)	67,083	–
Foreign exchange difference, net		14,158	–
		81,241	–
		3,131,646	3,266,244

Notes:

- (i) The Non-listed GOME Group comprises Beijing Eagle Investment Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd., Gome Electrical Appliance Retail Co., Ltd. and other companies which are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of “GOME Electrical Appliances” in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Non-listed GOME Group are owned by Mr. Wong Kwong Yu, a substantial shareholder and the former chairman of the Company.
- (ii) The Group entered into a management agreement (the “Management Agreement”) with Beijing Zhansheng Investment Co., Ltd. (“Beijing Zhansheng”) on 14 December 2007 and the Management Agreement was renewed on 15 December 2009. Pursuant to the Management Agreement, the Group manages and operates the retailing business of Beijing Dazhong Home Appliances Retail Co., Ltd. (“Dazhong Appliances”) for management fees.
- (iii) Various local government grants were received to reward the Group's contributions to the local economy. There was no unfulfilled condition or contingency attached to these government grants.

5. 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 operations and management of networks of electrical appliances and consumer electronic products retail stores in the PRC. The corporate office in Hong Kong does not earn revenues and is not classified as an operating segment.

Management monitors the results of its operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, interest expenses, the fair value gain on the derivative component of convertible bonds, gain on repurchases of the Old 2014 Convertible Bonds and other expenses incurred for the corporate office in Hong Kong are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, equity investments at fair value through profit or loss, other investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans, convertible bonds, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

	2009 RMB'000	2008 RMB'000
Segment revenue		
Sales to external customers	<u>42,667,572</u>	<u>45,889,257</u>
Segment results	1,945,269	2,264,753
<i>Reconciliation</i>		
Interest income	160,027	236,335
Unallocated gains	4,421	708
Gain/(loss) on the derivative component of convertible bonds	136,740	(189,220)
Gain on repurchases of the Old 2014 Convertible Bonds	67,083	–
Finance costs	(348,969)	(212,118)
Impairment of other investments	–	(449,592)
Corporate and other unallocated expenses	<u>(132,062)</u>	<u>(117,017)</u>
Profit before tax	<u>1,832,509</u>	<u>1,533,849</u>
Segment assets	20,752,019	19,476,014
<i>Reconciliation</i>		
Corporate and other unallocated assets	<u>15,011,161</u>	<u>8,019,090</u>
Total assets	<u>35,763,180</u>	<u>27,495,104</u>
Segment liabilities	17,644,775	14,448,099
<i>Reconciliation</i>		
Corporate and other unallocated liabilities	<u>6,315,940</u>	<u>4,346,970</u>
Total liabilities	<u>23,960,715</u>	<u>18,795,069</u>
Other segment information		
Impairment losses recognised in the consolidated income statement	31,866	61,450
Depreciation and amortisation	354,639	305,882
Capital expenditure	471,244*	999,142*

* Capital expenditure consists of additions to property, plant and equipment.

5. SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2009 RMB'000	2008 RMB'000
The PRC	<u>42,667,572</u>	<u>45,889,257</u>

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

(b) Non-current assets

	2009 RMB'000	2008 RMB'000
The PRC	8,698,144	8,223,340
Hong Kong	<u>8,193</u>	<u>8,464</u>
	<u>8,706,337</u>	<u>8,231,804</u>

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

6. FINANCE (COSTS)/INCOME

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

	Notes	2009 RMB'000	2008 RMB'000
Finance costs:			
Interest on bank loans wholly repayable within five years		(16,064)	(16,088)
Interest expenses on convertible bonds	11	<u>(332,905)</u>	<u>(196,030)</u>
		<u>(348,969)</u>	<u>(212,118)</u>
Finance income:			
Bank interest income		160,027	236,335
Other interest income	(i)	<u>181,182</u>	<u>204,682</u>
		<u>341,209</u>	<u>441,017</u>

Note:

- (i) Other interest income represented interest income from the RMB3,600 million designated loan (note 13) to Beijing Zhansheng through the Beijing Branch of Industrial Bank Co., Ltd. The loan bears interest at rates ranging from 4.86% to 5.103% (2008: 6.561%) per annum, which were determined by reference to the interest rates published by the People's Bank of China.

7. PROFIT BEFORE TAX

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

	<i>Notes</i>	2009 RMB'000	2008 <i>RMB'000</i>
Cost of inventories sold		38,408,042	41,378,707
Write-down of inventories to net realisable value		<u>–</u>	<u>2,516</u>
		38,408,042	41,381,223
Depreciation		345,597	296,256
Amortisation of intangible assets	(i)	9,042	9,626
Loss on disposal of items of property, plant and equipment		28,798	13,763
Minimum lease payments under operating leases in respect of land and buildings		2,038,504	2,051,023
Gross rental income	4	(127,610)	(125,045)
Fair value loss on transfer of owner occupied properties to investment properties:			
– properties acquired from Beijing Centergate Technologies (Holding) Co., Ltd.	(ii)	73,956	–
– other properties		<u>7,537</u>	<u>6,632</u>
		81,493	6,632
Fair value loss on investment properties		3,723	34,441
Management fees from Dazhong Appliances	4	(25,496)	(23,799)
Interest income from Beijing Zhansheng	6	(181,182)	(204,682)
(Gain)/loss on the derivative components of convertible bonds	11(i)	(136,740)	189,220
Fair value (gain)/loss on Hong Kong listed investments		(1,236)	659
Foreign exchange differences, net		(14,158)	84,520
Impairment of property, plant and equipment		–	31,725
Impairment of goodwill		2,000	8,000
Impairment of other investments		–	449,592
Impairment of prepayments, deposits and other receivables		29,866	21,725
Cash settlement for top-up subscription shares for warrants	(iii)	18,608	–
Auditors' remuneration			
– audit services		8,100	9,850
– non-audit services	(iv)	1,200	500
Staff costs excluding directors' remuneration			
Wages, salaries and bonuses		1,119,682	1,212,757
Pension scheme contributions		241,200	249,985
Social welfare and other costs		6,841	21,645
Equity-settled share option expense		<u>53,923</u>	<u>–</u>
		1,421,646	1,484,387

Notes:

- (i) The amortisation of intangible assets for the year is included in "Administrative expenses" on the face of the consolidated income statement.
- (ii) Beijing Centergate Technologies (Holding) Co., Ltd. ("Centergate Technologies") is a related party of the Group.

7. PROFIT BEFORE TAX (CONTINUED)

- (iii) On 28 January 2006 and 28 February 2006, the Company and Warburg Pincus Private Equity IX, L.P. (“Warburg Pincus”) entered into a subscription agreement and a supplemental agreement respectively (collectively referred to as the “Subscription Agreement”), pursuant to which the Company issued warrants at a subscription price of US\$3,000,000 to a subsidiary of Warburg Pincus on 1 March 2006. The holder of the warrants is entitled to subscribe for a maximum amount of US\$25 million of new shares of the Company during an exercise period of five years commencing from 1 March 2006. None of the warrants was exercised up to the end of the reporting period.

In accordance with the Subscription Agreement, Warburg Pincus has the right to subscribe for certain top-up subscription shares of the Company as a result of the open offer announced by the Company on 22 June 2009 (the “Open Offer”) and the issuance of the 2016 Convertible Bonds (note 11(ii)) by the Company. During the year ended 31 December 2009, the Company paid an amount of approximately RMB18,608,000 to Warburg Pincus to settle the top-up subscription shares for the warrants and it was recognised as an expense in the consolidated income statement.

- (iv) Exclude non-audit service fees of RMB3,386,000 (2008: Nil), which were recognised as the share issue costs under the Open Offer and transaction costs for issue of the New 2014 Convertible Bonds as disclosed in note 11(iii) to these financial statements.

8. INCOME TAX

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

	2009 RMB'000	2008 RMB'000
Current income tax – PRC	418,120	407,907
Deferred income tax	<u>(11,810)</u>	<u>27,249</u>
Total tax charge for the year	<u><u>406,310</u></u>	<u><u>435,156</u></u>

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

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2008: 25%) on their respective taxable income. During the year, 21 entities (2008: 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 a significant amount of tax benefits during the year through applying the preferential corporate income tax rates and the corporate income tax exemptions. These preferential tax treatments were available to the Group pursuant to the enacted PRC tax rules and regulations and are subject to assessment by the relevant PRC tax authorities.

No provision for Hong Kong profits tax has been made for the years ended 31 December 2009 and 2008, respectively, as the Group had no assessable profits arising in Hong Kong for the respective years.

8. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit/(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 rates, is as follows:

	Hong Kong		2009 PRC		Total
	RMB'000	%	RMB'000	%	RMB'000
Profit/(loss) before tax	<u>(239,935)</u>		<u>2,072,444</u>		<u>1,832,509</u>
Income tax at the statutory tax rate	(39,589)	16.5	518,111	25.0	478,522
Tax effect of preferential tax rates	–		(186,439)		(186,439)
Income not subject to tax	(39,095)		–		(39,095)
Expense not deductible for tax	70,706		30,632		101,338
Tax losses utilised from previous years	–		(20,538)		(20,538)
Tax losses not recognised	<u>7,978</u>		<u>64,544</u>		<u>72,522</u>
Tax charge at the Group's effective rate	<u>–</u>		<u>406,310</u>		<u>406,310</u>

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

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. At 31 December 2009, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (2008: Nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

9. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Interim: Nil		
(2008: HK3.0 cents (equivalent to RMB2.7 fen) per ordinary share)	–	344,486
Proposed final: Nil (2008: Nil)	–	–
	<u>–</u>	<u>344,486</u>

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

The calculation of 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 13,721,430,000 (2008: 12,804,958,000) in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the 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 the dilutive potential ordinary shares into ordinary shares.

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

	Note	2009 RMB'000	2008 RMB'000
Earnings			
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation		1,409,288	1,048,160
Interest on convertible bonds		189,770	—
Fair value gain on the derivative component of the convertible bonds		(136,740)	—
Gain on repurchases of the Old 2014 Convertible Bonds		(67,083)	—
Profit attributable to ordinary equity holders of the parent as adjusted for the effect of convertible bonds		<u>1,395,235</u>	<u>1,048,160</u>
Number of shares			
		2009 '000	2008 '000
Shares			
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation		13,721,430	12,804,958
Effect of dilution-weighted average number of ordinary shares:			
Warrants		31	31,342
Convertible bonds	(i)	<u>944,754</u>	<u>—</u>
		<u>14,666,215</u>	<u>12,836,300</u>

Notes:

- (i) The 2016 Convertible Bonds and the New 2014 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2009 and were therefore ignored in the calculation of diluted earnings per share. Therefore, only the effect of the Old 2014 Convertible Bonds was considered in the calculation of diluted earnings per share for the year ended 31 December 2009.

The Old 2014 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2008 and were therefore ignored in the calculation of diluted earnings per share.

- (ii) During the year ended 31 December 2009, the average quoted market price of the Company's shares was less than the exercise price of the share options. Therefore, the share options had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2009 and were therefore ignored in the calculation of diluted earnings per share.

11. CONVERTIBLE BONDS

	Notes	2009 RMB'000	2008 RMB'000
Liability components:			
Old 2014 Convertible Bonds	(i)	2,281,046	3,571,833
2016 Convertible Bonds	(ii)	1,502,733	—
New 2014 Convertible Bonds	(iii)	1,672,176	—
		<u>5,455,955</u>	<u>3,571,833</u>
Derivative components:			
Old 2014 Convertible Bonds	(i)	<u>(100,689)</u>	<u>(2,280)</u>
		5,355,266	3,569,553
Classified as current liabilities		<u>(2,180,357)</u>	<u>—</u>
Non-current liabilities		<u><u>3,174,909</u></u>	<u><u>3,569,553</u></u>

- (i) RMB denominated United States dollar (“USD”) settled zero coupon convertible bonds due in 2014 (the “Old 2014 Convertible Bonds”)

On 11 May 2007, the Company issued RMB denominated USD settled zero coupon convertible bonds due in 2014 in an aggregate principal amount of RMB4,600 million.

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

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

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

Pursuant to the Company’s announcements dated 5 July 2009 and 3 August 2009, the conversion price of the Old 2014 Convertible Bonds has been adjusted from HK\$4.96 per share to HK\$4.46 per share in accordance with the terms and conditions of the Old 2014 Convertible Bonds as a result of the Open Offer and issuance of the 2016 Convertible Bonds (note (ii) below).

The Company has reclassified the convertible bonds from non-current liabilities to current liabilities during the current period as the Old 2014 Convertible Bonds are redeemable at the option of the bondholders on 18 May 2010 in accordance with the terms and conditions of the Old 2014 Convertible Bonds.

11. CONVERTIBLE BONDS (CONTINUED)

- (i) RMB denominated United States dollar (“USD”) settled zero coupon convertible bonds due in 2014 (the “Old 2014 Convertible Bonds”) (continued)

During the year ended 31 December 2009, the Company repurchased part of the Old 2014 Convertible Bonds with an aggregate principal amount of RMB1,824,700,000 through over-the-counter purchases. The bonds repurchased have been cancelled. The consideration for the repurchases were allocated to the liability component, the derivative component and the equity component of the Old 2014 Convertible Bonds at the dates of the repurchases. The method used in allocating the consideration paid to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Company when the Old 2014 Convertible Bonds were issued. The Company determined the fair value of the liability component at the dates of the repurchases transactions based on the valuations performed by Vigers Appraisal & Consulting Limited (“Vigers”), an independent firm of professionally qualified valuers, using an equivalent market interest rate for a similar bond without a conversion option. The fair value of the derivative component was determined based on the valuations performed by Vigers using an option pricing model. The amount of gains which related to the liability component amounting to RMB67,083,000 was recognised in profit or loss and the amount of consideration which related to the equity component of RMB444,957,000 was recognised in equity.

As at 31 December 2009, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB2,775,300,000 remained outstanding.

The movements of the liability component, derivative component and equity component of the Old 2014 Convertible Bonds for 2008 and 2009 are as follows:

	Liability component of convertible bonds RMB'000	Derivative component of convertible bonds RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
At 1 January 2008	3,375,803	(191,500)	1,415,770	4,600,073
Interest expenses	196,030	–	–	196,030
Fair value adjustment	–	189,220	–	189,220
At 31 December 2008	3,571,833	(2,280)	1,415,770	4,985,323
Interest expenses	189,770	–	–	189,770
Fair value adjustment	–	(136,740)	–	(136,740)
Repurchases of bonds	(1,480,557)	38,331	(444,957)	(1,887,183)
At 31 December 2009	<u>2,281,046</u>	<u>(100,689)</u>	<u>970,813</u>	<u>3,151,170</u>

The fair values of the derivative component were determined based on the valuations performed by Vigers using the applicable option pricing model.

11. CONVERTIBLE BONDS (CONTINUED)

- (ii) RMB denominated USD settled 5% coupon convertible bonds due in 2016 (the “2016 Convertible Bonds”)

On 7 June 2009, the Company and Bain Capital Glory Limited (“Bain Capital”) entered into an investment agreement pursuant to which Bain Capital has conditionally agreed to subscribe for RMB1,590 million USD settled 5% coupon convertible bonds due 2016 at their full face value. The transaction was completed on 3 August 2009.

Pursuant to the terms of the agreement, the 2016 Convertible Bonds are:

- (a) convertible at the option of the bondholder, at any time during the period commencing 30 days after the issue date and ending on the close of business on 3 August 2016, both dates inclusive, in whole, or in any part, of the outstanding principal amount of the bonds into fully-paid shares (at a fixed exchange rate of RMB0.88 to HK\$1.00), at a conversion price of HK\$1.108 per share; and
- (b) redeemable at the option of the bondholders on or at any time after the fifth anniversary of the issue date and prior to the bond maturity date in a USD amount equivalent to the principal amount of the bond multiplied by 1.12^n , where “n” equals the number of days from the issue date until the early redemption date (both days inclusive) divided by 360; minus the amount of interest paid on such bond for the period from (and including) the issue date to (but excluding) the early redemption date; and
- (c) redeemable at the option of the bondholders, upon the occurrence of a specified event or any of the events of default at the USD equivalent of the higher of: (A) the amount equal to 1.5 times the principal amount of the said bond (or, if the maximum amount permitted by applicable law is lower, then such maximum amount permitted by applicable law); and (B) the principal amount of the said bond multiplied by 1.25^n , where “n” equals the number of days from the issue date until the date of redemption (both days inclusive) divided by 360; minus the amount of interest paid on such bond for the period from (and including) the issue date to (but excluding) the date of redemption.

The Company shall on 3 August 2016, the bond maturity date, redeem in USD all the bonds then outstanding at the USD equivalent of the principal amount of each bond multiplied by 1.12^n , where “n” equals the number of days from the issue date until the bond maturity date (both days inclusive) divided by 360; minus the amount of interest paid on such bond for the period from (and including) the issue date to (but excluding) the bond maturity date.

11. CONVERTIBLE BONDS (CONTINUED)

- (ii) RMB denominated USD settled 5% coupon convertible bonds due in 2016 (the “2016 Convertible Bonds”)
(continued)

Based on the terms and conditions of the 2016 Convertible Bonds, the exercise of the conversion option will give rise to the settlement by exchanging of a fixed amount of cash for a fixed number of shares of the Company and it was accounted for as an equity component. At inception, the host debt instrument was fair valued and accounted for as a liability component. The equity component was assigned as the residual amount after deducting the liability component from the consideration received for the instrument. The Company determined the fair value of the liability component based on the valuations performed by Vigers using an equivalent market interest rate for a similar bond without a conversion option. The residual amount was assigned as the equity component for the conversion option and was included in the capital reserve at inception.

The liability component is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The value of the equity component is not remeasured in subsequent years.

Transaction costs that relate to the issue of the 2016 Convertible Bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component is charged to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible bonds using the effective interest method.

The movements of the liability component and equity component of the 2016 Convertible Bonds during the period from the issue date to the end of the reporting period are as follows:

	Liability component of convertible bonds	Equity component of convertible bonds	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Principal amount of convertible bonds issued	1,449,240	140,760	1,590,000
Transaction costs	(34,486)	(3,349)	(37,835)
Interest expenses	87,979	—	87,979
At 31 December 2009	<u>1,502,733</u>	<u>137,411</u>	<u>1,640,144</u>

11. CONVERTIBLE BONDS (CONTINUED)

(iii) RMB denominated USD settled 3% coupon convertible bonds due in 2014 (the “New 2014 Convertible Bonds”)

On 23 September 2009, the Company entered into a bond subscription agreement with J.P. Morgan Securities Ltd. (“J.P. Morgan”) to issue the RMB denominated USD settled 3.0% coupon convertible bonds due 2014 with an aggregate principal amount of RMB2,050 million (with the option (the “Option”) for the issue of up to RMB340 million aggregate principal amount of USD settled 3.0% convertible bonds due 2014). J.P. Morgan has exercised the Option and the Company issued the bonds on 25 September 2009 with an aggregate principal amount of RMB307.2 million. Accordingly, the total principal amount of the New 2014 Convertible Bonds issued by the Company is RMB2,357.2 million.

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

- (a) convertible at the option of the bondholders on or after 5 November 2009 up to the 10th day prior to 25 September 2014 at a conversion price of HK\$2.8380 (at the fixed rate of HK\$1.1351 = RMB1.00) per share;
- (b) redeemable at the option of the bondholders in all or some only of the bonds on 25 September 2012 at a USD amount equivalent of 103.634% of their RMB principal amount together with interest accrued to the date fixed for redemption; and
- (c) redeemable at the option of the Company at any time after 25 September 2012 in all, but not some only, of the bonds for the time being outstanding at a USD amount equivalent of their early redemption amount as at the date fixed for redemption together with interest accrued to the date fixed for redemption, provided that the closing prices of the Company’s shares for 30 consecutive trading days prior to the date upon which notice of such redemption is published are at least 130% of the early redemption amount of a bond divided by the conversion ratio.

Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in the terms and conditions of the New 2014 Convertible Bonds, each bond will be redeemed at a USD amount equivalent of 106.318% of its RMB principal amount together with unpaid accrued interest thereon on 25 September 2014, the bond maturity date.

Based on the terms and conditions of the New 2014 Convertible Bonds, the exercise of the conversion option will give rise to the settlement by exchanging of a fixed amount of cash for a fixed number of shares of the Company and it was accounted for as an equity component. At inception, the host debt instrument was fair valued and accounted for as a liability component. The equity component was assigned as the residual amount after deducting the liability component from the consideration received for the instrument. The Company determined the fair value of the liability component based on the valuations performed by Vigers using an equivalent market interest rate for a similar bond without a conversion option. The residual amount was assigned as the equity component for the conversion option and was included in the capital reserve as at inception.

The liability component is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The value of the equity component is not remeasured in subsequent years.

11. CONVERTIBLE BONDS (CONTINUED)

- (iii) RMB denominated USD settled 3% coupon convertible bonds due in 2014 (the “New 2014 Convertible Bonds”) (continued)

Transaction costs that relate to the issue of the New 2014 Convertible Bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component is charged to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible bonds using the effective interest method.

The movements of the liability component and equity component of the New 2014 Convertible Bonds during the period from the issue date to the end of the reporting period are as follows:

	Liability component of convertible bonds RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
Principal amount of convertible bonds issued	1,653,610	703,590	2,357,200
Transaction costs	(36,590)	(15,569)	(52,159)
Interest expenses	55,156	—	55,156
At 31 December 2009	<u>1,672,176</u>	<u>688,021</u>	<u>2,360,197</u>

12. OTHER INVESTMENTS

	2009 RMB'000	2008 RMB'000
PRC equity investments, at fair value	<u>153,360</u>	<u>108,810</u>

The balance as at 31 December 2009 represented the fair value of the Group's investments in 27,000,000 shares, representing approximately 10.7% of the outstanding issued shares, of Sanlian Commercial Co., Ltd. (“Sanlian”). Sanlian is a PRC company listed on the Shanghai Stock Exchange. The Group classified these investments as available-for-sale financial assets at 31 December 2009 and 2008. The fair value of these investments is based on quoted market prices of the listed shares, which was RMB5.68 at 31 December 2009 (31 December 2008: RMB4.03). 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 income statement. An impairment loss recognised in profit or loss for an investment in an equity instrument classified as available for sale will not be reversed through profit or loss. Accordingly, the amount of impairment loss which was recognised in the Company's 2008 consolidated income statement of RMB449,592,000 was not reversed in the current year.

According to a public announcement of Sanlian dated 2 February 2009, the Group nominated two independent directors and three executive directors to the board of directors of Sanlian. Such nominations have been approved by the shareholders of Sanlian at a shareholders' meeting on 2 February 2009. Of the seven directors of Sanlian, five were nominated by the Group. With reference to Sanlian's memorandum and articles of association and by taking into account the current shareholding structure of Sanlian, the directors of the Company consider that the Group has no absolute right to determine the composition of the board of directors of Sanlian or appoint directors to it and thus, the Group does not have control or significant influence over Sanlian.

During the year ended 31 December 2009, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to RMB4,335,000 (2008: Nil).

13. DESIGNATED LOAN

The designated loan of RMB3,600 million as at 31 December 2009 (31 December 2008: RMB3,600 million) represented the aggregate amount of loans provided to Beijing Zhansheng by the Group through the Beijing Branch of Industrial Bank Co., Ltd. (the “Bank”). The loan had a maturity date on 12 December 2009 and the interest rate of 5.103% per annum. On 15 December 2009, the designated loan was renewed to 14 December 2011 with an interest rate of 4.86% per annum. Accordingly, the designed loan was classified as a non-current asset as at 31 December 2009.

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

In addition, pursuant to an option agreement dated 14 December 2007 and the renewed option agreement dated 15 December 2009, Beijing Zhansheng irrevocably granted the Group an option (the “Purchase Option”), on an exclusive basis, for the Group or any party(ies) designated by the Group to acquire all or part of the registered share capital of Dazhong Appliances held by Beijing Zhansheng, subject to the approvals from the PRC government authorities and other terms and conditions of the option agreement.

As at the date of this announcement, the board of directors of the Company is considering to exercise the Purchase Option in the future.

14. TRADE AND BILLS PAYABLES

Group

	2009 RMB'000	2008 RMB'000
Trade payables	4,159,579	4,431,020
Bills payable	11,655,682	8,486,938
	<u>15,815,261</u>	<u>12,917,958</u>

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:

	2009 RMB'000	2008 RMB'000
Within 3 months	9,617,687	8,933,715
3 to 6 months	5,921,009	3,553,829
Over 6 months	276,565	430,414
	<u>15,815,261</u>	<u>12,917,958</u>

The Group's bills payable and PRC bank loans are secured by:

- (i) the pledge of the Group's time deposits;
- (ii) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by the Group's time deposits;

14. TRADE AND BILLS PAYABLES (CONTINUED)

- (iii) the pledge of certain of the Group's inventories;
- (iv) the pledge of certain of the Group's buildings;
- (v) the pledge of certain of the Group's investment properties; and
- (vi) the corporate guarantees provided by Mr. Wong Kwong Yu and Mr. Chen Xiao.

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Chinese economy stabilized and recovered in 2009. With favorable state macroeconomic policies and with the implementation of a series of measures in accordance with the Group's transformation strategy, such as performance optimization and network rationalization, as well as the introduction of a strategic investor, GOME weathered the storm and moved forward with exciting development momentum.

We are pleased to see that the strategic targets set for 2009 were successfully met. The Group scaled back expansion, and closed a great number of underperforming stores, hence its total number of stores reduced to 726 as of the end of 2009, from 859 a year ago. As a result, the operational efficiency of individual stores improved, as demonstrated by 2.81% growth in same store sales. Despite reduction in store numbers, net profit significantly increased in 2009.

During the reporting period, the Group recorded sales revenue of approximately RMB42,668 million, down 7.02% compared with RMB45,889 million in the previous year. The net profit attributable to owners of the parent rose substantially to approximately RMB1,409 million, of 34.45% over the previous year's RMB1,048 million.

During the year, Bain Capital Glory Limited ("Bain Capital") subscribed to 5% coupon convertible bonds due in 2016 (the "2016 Convertible Bonds") issued by the Company for a total consideration of approximately RMB1,590 million. The Company further raised approximately RMB1,361 million through an open offer of approximately 2,296 million shares, on the basis of 18 new shares for every 100 existing shares held. In addition, the Company issued 3% coupon convertible bonds due in 2014 (the "New 2014 Convertible Bonds") realizing proceeds of approximately RMB2,357 million. In total, the Group raised approximately RMB5,308 million cash via the above three financing arrangements. This also demonstrated the confidence among the investment communities in the Group as well as the belief in the future prospects for China's home appliance industry.

The capital raised will be sufficient for working capital and to settle the redemption rights of the 0% coupon convertible bonds due in 2014 (the "Old 2014 Convertible Bonds"). During the year, the Company repurchased the Old 2014 Convertible Bonds in the principal amount of RMB1,824.7 million, with the outstanding principal amount of RMB2,775.3 million. The three non-executive directors nominated by Bain Capital were officially appointed to the Board. Their extensive retail sector experience and capital markets expertise will be most valuable to the Company in its business operations, internal controls and corporate governance.

The management believes that Gome, as the industry leader, should continue to embrace innovation and welcome the change brought about by strategic adjustment. At the same time it should continuously enhance its core competences. Thus, the Group decided to undertake a strategic transformation beginning in early 2009. Since then, it has gained strong support and recognition from its suppliers reshaping its profit distribution model to establish a more rational resource allocation mechanism among the players in the supply chain. We also made significant improvement in individual stores' performance through a series of network rationalization measures including the closure of underperforming stores and introduction of renovated stores with fresh lay-out. In addition, the Group successfully rebuilt its brand image via programs driven by customer needs, not only in product mix and product display, but also in pricing strategy and promotional plans.

FINANCIAL REVIEW

REVENUE

During the reporting period, with net close down of 133 under-performing stores, the Group's revenue was RMB42,668 million, approximately down 7.02% from RMB45,889 million in 2008. During the reporting period, the Group's weighted average sales area was approximately 2,810,000 square meters, compared to approximately 2,960,000 square meters in 2008, representing a decrease of approximately 5.07%. Sales revenue per square meter was approximately RMB15,184, down 2.06% as compared to RMB15,503 in the corresponding period of 2008. Comparing to the decrease of 9.87% in sales revenue per square meter for the period from 2007 to 2008, the decreasing trend was narrowed and under control this year.

Aggregate sales of 532 comparable stores recorded a revenue of RMB34,816 million in 2009, up 2.81% from RMB33,864 million in 2008. Revenue mix by region remained largely the same as last year. Sales revenue from four regions of Shanghai, Beijing, Guangzhou and Shenzhen amounted to RMB19,341 million, accounting for 45.33% of the total sales revenue.

COST OF SALES AND GROSS PROFIT

Cost of sales of the Group was approximately RMB38,408 million in the reporting period, representing a decrease by 7.18% as compared with that of RMB41,381 million in the corresponding period of 2008. Total gross profit recorded in 2009 was approximately RMB4,260 million with gross profit margin of 9.98% as compared to that of approximately RMB4,508 million with gross profit margin of 9.82% in last year. A rise in gross profit margin was the result of differentiation strategy implementation in product management and the good cooperation with the suppliers.

OTHER INCOME AND GAIN

During the reporting period, the Group recorded other income and gain of RMB3,132 million, representing a slight decrease of 4.10% over that of RMB3,266 million in 2008. Other income and gain as a percentage of the sales revenue represented a rise of 0.22 percentage points from 7.12% in 2008 to 7.34% in 2009.

Other income and gain comprised the following:

	2009	2008
As a percentage of revenue		
Income from suppliers	5.21%	5.49%
Fees from the Non-listed GOME Group	0.55%	0.54%
Management fees for air-conditioner installation	0.23%	0.21%
Government grants	0.22%	0.11%
Rental income	0.30%	0.26%
Extended warranty income	0.24%	0.21%
Management fees from Dazhong	0.06%	0.05%
Others	0.53%	0.25%
Total	<u>7.34%</u>	<u>7.12%</u>

CONSOLIDATED GROSS PROFIT MARGIN

During the reporting period, the Group's consolidated gross profit margin reached 17.32%, representing an increase of 0.38 percentage points as compared to 16.94% for the previous year. (Consolidated gross profit margin = (gross profit + other income and gain)/ sales revenue). As mentioned in the previous section, increase in gross profit margin and percentage of other income and gain to total revenue have contributed to the Group's year-on-year increase in its consolidated gross profit margin.

OPERATING EXPENSES

During the reporting period, the Group's total operating expenses (including selling and distribution costs, administrative expenses and other expenses) were RMB5,688 million, representing 13.33% of the total sales revenue. It is slightly decreased by 2.45% as compared to RMB5,831 million in the corresponding period of 2008.

SELLING AND DISTRIBUTION COSTS

During the reporting period, the Group's total selling and distribution costs amounted to RMB4,352 million, a slight decrease by 3.01% as compared to RMB4,487 million in 2008.

ADMINISTRATIVE EXPENSES

During the reporting period, the Group's administrative expenses of RMB845 million were slightly higher than that of RMB828 million in 2008 by 2.05%. However, by excluding the amortisation cost of RMB70.53 million in relation to employee share options granted during the year, the administrative expenses would be approximately RMB774.47 million, representing 1.82% of the revenue, a slight decrease as compared to last year. It was maintained at a relatively low level due to stronger control over administrative expenses.

OTHER EXPENSES

Other expenses of the Group mainly comprised business tax, bank charges, provision of bad debts and fair value loss on transfer of owner occupied properties to investment properties. Other expenses were approximately RMB490 million during the reporting period, representing 1.15% of the sales revenue, which was slightly higher than 1.12% in 2008. This was mainly due to the increase of fair value loss on transfer of owner occupied properties to investment properties during the reporting period.

PROFIT FROM OPERATING ACTIVITIES

As a result of reducing number of stores during the year, the revenue and gross profit were decreased and one-off termination expenses were incurred, the profit from operating activities was then decreased from RMB1,944 million last year by 12.35% to RMB1,704 million this year. After the implementation of precision management and network rationalization at the beginning of the year, the profit from operating activities showed great improvement on a quarterly basis.

NET FINANCE LOSS

During the reporting period, the Group's net finance loss was RMB8 million, as compared to the net finance income of RMB229 million in 2008. A decrease of net finance income was mainly due to rise in the interest expenses from convertible bonds issued during the year and lower deposit interest rates.

PROFIT BEFORE TAX

During the reporting period, the Group's profit before tax was approximately RMB1,833 million, accounting for approximately 4.30% of the sales revenue, representing a 19.49% increase as compared with RMB1,534 million in 2008 and representing an increase of 0.96 percentage points as compared to 3.34% in its percentage to sales revenue.

INCOME TAX EXPENSE

During the reporting period, the Group's income tax expense for the year was RMB406 million, representing a slight decrease as compared with RMB435 million in 2008. The management considers the tax rate applied to the Group for the reporting period is reasonable.

PROFIT FOR THE YEAR AND EARNINGS PER SHARE

During the reporting period, the Group recorded a profit for the year attributable to owners of the parent of approximately RMB1,409 million, representing a drastic increase of 34.45% as compared with RMB1,048 million in 2008. Also, the basic earnings per share increased 25.61% to RMB0.103 as compared to RMB0.082 last year.

CASH AND CASH EQUIVALENTS

At the end of the reporting period, the Group's cash and cash equivalents were approximately RMB6,029 million, representing an increase of nearly two times as compared with RMB3,051 million at the end of 2008, which was mainly attributable to financing activities that raised RMB5,308 million in 2009.

INVENTORY

At the end of the reporting period, the Group's inventory amounted to approximately RMB6,532 million, representing a substantial increase as compared to RMB 5,473 million in 2008. The inventory turnover period was approximately 57 days in the reporting period, as compared with approximately 48 days in 2008. This was mainly attributable to the increased inventory level at the end of 2009 to prepare for the coming New Year and the Lunar New Year holidays at the end of 2009.

PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

At the end of the reporting period, prepayment and other receivables of the Group amounted to approximately RMB1,702 million, up 22.98% from approximately RMB1,384 million at the end of 2008. This increase was mainly attributable to the participation in the exchange-old-for-new program and increase in the receivables from the program.

TRADE AND BILLS PAYABLE

At the end of the reporting period, trade and bills payable of the Group amounted to approximately RMB15,815 million, up 22.43% in line with the increase in inventory, from approximately RMB12,918 million at the end of 2008. Trade and bills payable turnover days were 137 days, increased by 20 days from 117 days in 2008.

CAPITAL EXPENDITURE

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB332 million, representing a significant decrease as compared with approximately RMB1,776 million in 2008 as it reduced the acquisition of new properties in 2009.

CASH FLOW

During the reporting period, attributable to the increase in inventory and pledged deposits the Group's net cash outflow from operating activities amounted to approximately RMB175 million.

Net cash outflow from investing activities amounted to approximately RMB294 million, representing a significant decrease as compared with outflow of RMB4,515 million in 2008, as the Group reduced investment activities for the current period.

Net cash from financing activities amounted to approximately RMB3,467 million, as compared to a net cash outflow from financing activities of approximately RMB2,214 million in 2008. This was mainly due to inflow of RMB5,308 million from 3 financing activities during the year.

DECLARATION OF DIVIDEND AND DIVIDEND POLICY

The board of directors of the Company does not recommend the payment of final dividend so as to preserve for funding needs for future development. Currently, the Directors anticipate that the dividend payout ratio will be maintained at not more than 30% of the Group's distributable profit of the relevant financial year. However, the actual payout ratio in a financial year will be determined at the Directors' full discretion, after taking into account, among other considerations, business environment and availability of investment opportunities.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

There were no material contingent liabilities as at the end of the reporting period. However, the Group had capital commitment of approximately RMB119 million at the end of the reporting period.

FOREIGN CURRENCIES AND TREASURY POLICY

All the Group's income and a majority of its expenses were denominated in Renminbi. The Group has not hedged its foreign exchange exposure but may consider doing so in future. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

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

FINANCIAL RESOURCES AND GEARING RATIO

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

As at 31 December 2009, the total borrowings of the Group, being interest-bearing bank borrowings and convertible bonds, amounting to about RMB5,705 million. Of the total borrowings, 44.35% will be repayable in 2010, 55.65% will be repayable beyond 2010. The Group's financing activities continue to be supported by its bankers.

As at 31 December 2009, the debt to total equity ratio, which expressed a percentage of total borrowings amounting to RMB5,705 million over total equity amounting to RMB11,802 million, increased to 48.34% from 42.99% as at 31 December 2008. Such increase was mainly due to the issuance of 2 convertible bonds in 2009.

CHARGE ON GROUP ASSETS

As at the end of 2009, the Group's bank acceptance credit bills payable and PRC bank loans were secured by the Group's time deposits amounting to RMB6,190 million, the amount in Hong Kong dollar equivalent to RMB2,606 million and certain inventories with the carrying value of RMB500 million and the pledge of certain buildings and self-owned properties of the Group with the carrying value of RMB2,236 million. As at 31 December 2009, the Group's bills payable and PRC bank loans amounting to RMB12,006 million.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2009, the Group employed a total of 42,368 employees. The Group recruits and promotes individuals based on merit and their development potentials. Remuneration package offered to all employees including Directors is determined with reference to their performance and the prevailing salary levels in the market.

OUTLOOK AND PROSPECTS

The Group will continue its transformation strategy on the basis of progress made in 2009, to adapt to the changing macro economic environment and capitalize on the rapid growth of the electrical home appliance retailing industry. With the goal of continuing to be a first-class electrical home appliance retailer in China, we will continue to focus on value creation for customers, and strengthen our ability to grow the business in many incremental ways.

CAPITALIZING ON CHINA’S STIMULUS POLICIES

In 2009, China successively introduced fiscal stimulus policies aiming at “increasing domestic demand and boosting consumption”. Electrical home appliances was named as one of the target industries to benefit from certain stimulus policies. In 2010, these policies are still in place and are expected to increase in depth and breadth. For example, additional cities were entitled to join the “exchange old for new” program with expanded lines of products, and most importantly, the exchange process was simplified. These fiscal policies will effectively expedite the replacement cycle of home appliances across all market segments, becoming catalysts driving our rapid growth.

STRENGTHENING STORE OPERATING EFFICIENCY – “OPEN QUALITY MEGA STORES”

The Group will continue to open quality “mega-stores”, particularly in important regional centers. Selected existing stores will be converted into the “new-model stores” and some will be turned into the flagship model of “Xin Huo Guan”.

Designed with prevailing international examples in mind, both of the above models were proven successful when we remodeled some of our stores in 2009. We now plan to gradually roll out the new models throughout the network.

IMPLEMENTING DIFFERENTIATION STRATEGY

The Group has adhered to the sales and marketing strategy of product differentiation, which requires speedy introduction of the latest and most popular models and series and a diversified assortment of products which attract consumers by meeting their evolving needs. As a result, we will achieve dominant market position and raise our gross profit margin.

The Group will continue to carry out the product differentiation strategy through various paths, including intensive promotion, exclusive sale, custom-tailoring, OEM and ODM. We will carry more exclusive products and accessories that deliver higher gross profit margin. At the same time, value-added businesses such as extended warranty service and differentiated services such as remote device installation, will be well developed to improve our overall profitability.

STRENGTHENING 3C BUSINESS

3C products refer to digital products such as computers, cameras and communication equipment. They typically have enormous market demand and have short product life cycles, and thus become one of the focal lines promoted by home electrical appliance retailers.

3C products, as a key product category, will also follow the differentiation strategy so as to ensure incremental increases in profitability. We will establish professional 3C outlets to deepen the cooperation with 3C product manufacturers and operators and consequently improve our product lines to attract more customers. We will also improve the logistics operation of 3C products by carrying out daily inventory replenishment to effectively enhance the inventory turnover rate and lower the proportion of slow-moving products. This series of measures will help attract customers to spend more time touring our stores and will improve margins and profitability.

ENHANCING 3G BUSINESS

In 2009, the three telecom operators in China launched their respective “third generation” (“3G”) products and services. According to official statistics, the current number of 3G users has already exceeded 10 million and is expected to reach 60 million by 2010 and over 100 million by 2011. 3G products will be the next hot spot in consumer spending.

On the back of 3G campaigns driven by the government and operators, we deepened our cooperation with operators to become the major channel for the sale of 3G products. We will set dedicated areas for the operators to promote their 3G products and areas for customers to take part in free-trials and experiments.

EXPANDING SECOND-TIER MARKETS

Given that the second-tier markets are maturing and that the nation’s “go rural” policy will continue for at least another five years, there is huge potential in the second-tier markets. To this end, the Company set up a second-tier market business management center to oversee its retail network in the designated markets.

The Group will continue to enhance the effectiveness of network coverage by increasing the number of stores in second-tier markets and by optimizing its store network. Meanwhile, the Group will establish additional logistics centers in second-tier markets, complementing the extended coverage, so as to effectively boost our market share in this segment and maintain advantages in each regional market.

IMPROVING RELATIONSHIPS WITH SUPPLIERS

The interests of retailers and suppliers are positively correlated with the supply chain. In 2009, we made a series of adjustments to optimize our network and improve individual store efficiency, changes which also benefit our suppliers.

As a leading home appliance retailer in China, the Group will continue to advocate for change and innovation within the sector. Being desirous of sustainable profitability for both retailers and suppliers, we will focus on improving the quality of individual stores and facilitating the sustainable and healthy development of the whole industry.

ENHANCING THE ECONOMIES OF SCALE BY “CENTRALIZED PROCUREMENT”

The Group has gained significant bargaining power in purchasing due to the economies of scale achieved by a centralized procurement and distribution system. The Group will continue to leverage its extensive retail network to further enhance centralized procurement and delivery. We will try to accelerate inventory turnover and improve working capital, while at the same time reducing operating and management expenses.

DEVELOPMENT OF E-COMMERCE

According to market forecasts, the value of online shopping will reach RMB1 trillion by 2014. In terms of 3C products in the home electrical appliance industry, it is expected that online sales of 3C goods will account for 10-15% of the overall 3C market in the next 5 years. Therefore, e-commerce poses significant growth potential and business opportunities for the electrical home appliance industry.

To satisfy customers' needs for multi-channel shopping experiences, we will provide online virtual shopping option to complement our existing physical stores, maintaining our leading position in the market place.

ADOPTING NEW INFORMATION SYSTEM

Our store network across the country is a natural source of market intelligence, which could be utilized effectively in operations, should a systematic approach on collecting and managing data be put in place.

As such, the Group plans to speed up the implementation of a new ERP system in 2010, which will help improve the timeliness and accuracy of management information, enhance the overall management capability and lower operating costs.

CORPORATE GOVERNANCE

During the year ended 31 December 2009, the Company was in compliance with the Code Provision of the Code on Corporate Governance Practices as set in Appendix 14 to the Listing Rules. However, under code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer of a listed company should be separate and should not be performed by the same individual. The Board appointed Mr. Chen Xiao who is an executive Director and the President of the Company to be the Acting Chairman of the Company with effect from 27 November 2008 and then to be the Chairman of the Company with effect from 16 January 2009. As Mr. Chen Xiao, being the President of the Company, has been performing the role and function of the chief executive officer of the Company, his appointment as the Acting Chairman and then the Chairman of the Company constituted a deviation from code provision A.2.1 of the CG Code. Given that Mr. Chen Xiao has been the President of the Group since completion of the Company's acquisition of China Paradise Electronics Retail Limited (which he founded) and has over 20 years of experience in the electrical and electronic retail sector in China, the Board believes that it is in the best interest of the Group and its shareholders as a whole to also appoint Mr. Chen Xiao as the Chairman of the Company in the interim period to provide stability to the Group and to oversee the operations of the Group in the circumstances.

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

AUDIT COMMITTEE

The Audit Committee of the Company comprises Messrs. SZE Tsai Ping, Michael, CHAN Yuk Sang and Thomas Joseph MANNING, all of whom are independent non-executive Directors. The Audit Committee assists the Board in providing an independent review on the completeness, accuracy and fairness of the financial statements of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee had reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2009 and the auditors' report thereon and submitted its reports to the Board.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the year ended 31 December 2009, the Company had repurchased the Old 2014 Convertible Bonds in the principal amounts of RMB1,326,300,000 and RMB498,400,000 by way of over-the-counter purchases on 24 September 2009 and 19 November 2009 respectively. The repurchased bonds had been cancelled upon the repurchases during the year. As at 31 December 2010, the principal amount of the Old 2014 Convertible Bonds outstanding was RMB2,775,300,000.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2009.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

This announcement will be published on the Stock Exchange's website and the Company's website (www.gome.com.hk). The 2009 Annual Report will also be published on the Stock Exchange's website and the Company's website and will be despatched to the shareholders of the Company.

APPRECIATION

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

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

Hong Kong, 7 April 2010

As at the date of this announcement, the Board comprises Mr. Chen Xiao, Mr. Ng Kin Wah, Mr. Wang Jun Zhou, Ms. Wei Qiu Li and Mr. Sun Yi Ding as executive directors; Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong as non-executive directors; and Mr. Sze Tsai Ping, Michael, Mr. Chan Yuk Sang and Mr. Thomas Joseph Manning as independent non-executive directors.

* For identification purpose only