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 2010

2010 FINANCIAL HIGHLIGHTS

- Revenue for the year amounted to RMB50,910 million, representing a year-on-year increase of 19.32%
- Consolidated gross profit margin (gross profit margin plus other income and gains margin) rose from 17.32% to 18.39%
- Profit attributable to owners of the parent company increased from RMB1,409 million to RMB1,962 million representing a year-on-year increase of 39.25%
- Basic earnings per share were RMB0.127, up 23.30% from RMB0.103 last year
- The Board has resolved to declare payment of a final dividend of HK$4.1 cents (equivalent to RMB3.5 fen) per share
- Revenue from comparable stores increased by 21.80% as compared to 2009
- Sales revenue per square metre rose by 22.64% as compared to 2009

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 2010 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	**50,910,145**	42,667,572
Cost of sales		**(44,991,355)**	(38,408,042)
Gross profit		**5,918,790**	4,259,530
Other income and gains	5	**3,441,628**	3,131,646
Selling and distribution costs		**(5,114,303)**	(4,352,350)
Administrative expenses		**(1,165,138)**	(845,235)
Other expenses		**(375,323)**	(490,062)
Profit from operating activities		**2,705,654**	1,703,529
Finance costs	7	**(441,818)**	(348,969)
Finance income	7	**339,036**	341,209
(Loss)/gain on the derivative component of convertible bonds	14(i)	**(93,340)**	136,740
PROFIT BEFORE TAX	6	**2,509,532**	1,832,509
Income tax expense	8	**(547,878)**	(406,310)
PROFIT FOR THE YEAR		**1,961,654**	1,426,199
Attributable to:			
Owners of the parent		**1,961,654**	1,409,288
Non-controlling interests		**–**	16,911
		1,961,654	1,426,199
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
– Basic		**RMB12.7 fen**	RMB10.3 fen
– Diluted		**RMB12.0 fen**	RMB9.5 fen

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	2010 *RMB'000*	2009 *RMB'000*
PROFIT FOR THE YEAR	**1,961,654**	1,426,199
OTHER COMPREHENSIVE INCOME		
Changes in fair value of other investments	**(25,650)**	44,550
Gains on property revaluation	**25,204**	98,253
Income tax effect	**(6,301)**	(24,563)
	18,903	73,690
Exchange differences on translation of foreign operations	**(15,162)**	(20,804)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(21,909)**	97,436
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,939,745**	1,523,635
Attributable to:		
Owners of the parent	**1,939,745**	1,506,724
Non-controlling interests	**–**	16,911
	1,939,745	1,523,635

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,556,163**	3,391,950
Investment properties		**830,611**	820,671
Goodwill		**4,014,981**	4,014,981
Other intangible assets		**116,157**	125,199
Other investments		**127,710**	153,360
Prepayments for acquisition of properties		**–**	21,129
Lease prepayments		**387,784**	332,407
Deferred tax assets		**39,513**	30,763
Designated loans	*11*	**3,648,000**	3,600,000
Total non-current assets		**12,720,919**	12,490,460
CURRENT ASSETS			
Hong Kong listed investments, at fair value		**–**	1,635
Inventories		**8,084,971**	6,532,453
Trade and bills receivables	*12*	**206,102**	54,199
Prepayments, deposits and other receivables		**2,446,051**	1,701,884
Due from related parties		**251,290**	157,146
Pledged deposits		**6,268,130**	8,796,344
Cash and cash equivalents		**6,232,450**	6,029,059
Total current assets		**23,488,994**	23,272,720
CURRENT LIABILITIES			
Interest-bearing bank loans		**100,000**	350,000
Trade and bills payables	*13*	**16,899,683**	15,815,261
Customers' deposits, other payables and accruals		**1,819,999**	1,829,514
Due to related parties		**97,826**	–
Convertible bonds	*14*	**122,627**	2,180,357
Tax payable		**509,374**	507,245
Total current liabilities		**19,549,509**	20,682,377
NET CURRENT ASSETS		**3,939,485**	2,590,343
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,660,404**	15,080,803
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**111,148**	103,429
Convertible bonds	*14*	**1,814,069**	3,174,909
Total non-current liabilities		**1,925,217**	3,278,338
Net assets		**14,735,187**	11,802,465
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**417,666**	382,408
Reserves		**13,735,246**	11,420,057
Proposed final dividend	*10*	**582,275**	–
		14,735,187	11,802,465
Non-controlling interests		**–**	–
Total equity		**14,735,187**	11,802,465

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 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 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 component 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.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments included in *Improvements to IFRSs* issued in October 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised), amendments to IAS 7 and IAS 17 included in *Improvements to IFRSs 2009*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

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

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

3. **CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)**

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements (Continued)*

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to IFRSs 2009* issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

4. **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 the Group's operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, 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, finance costs, the fair value loss or gain on the derivative component of convertible bonds, gain on repurchases of the Old 2014 Convertible Bonds, gain on redemption 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 and other investments as these assets are managed on a group basis.

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

4. SEGMENT INFORMATION (Continued)

	2010	2009
	RMB'000	*RMB'000*
Segment revenue		
Sales to external customers	**50,910,145**	42,667,572
Segment results	**2,862,919**	1,945,269
Reconciliation:		
Interest income	**164,076**	160,027
Unallocated gains	**15,466**	4,421
(Loss)/gain on the derivative component of convertible bonds	**(93,340)**	136,740
Gain on repurchases of the Old 2014 Convertible Bonds (defined in note 14)	**–**	67,083
Gain on redemption of the Old 2014 Convertible Bonds	**202,578**	–
Finance costs	**(441,818)**	(348,969)
Corporate and other unallocated expenses	**(200,349)**	(132,062)
Profit before tax	**2,509,532**	1,832,509
Segment assets	**23,542,110**	20,752,019
Reconciliation:		
Corporate and other unallocated assets	**12,667,803**	15,011,161
Total assets	**36,209,913**	35,763,180
Segment liabilities	**18,817,508**	17,644,775
Reconciliation:		
Corporate and other unallocated liabilities	**2,657,218**	6,315,940
Total liabilities	**21,474,726**	23,960,715
Other segment information		
Impairment losses recognised in the income statement	**1,008**	31,866
Depreciation and amortisation	**341,585**	354,639
Capital expenditure*	**507,287**	471,244

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

Geographical information

(a) Revenue from external customers

	2010	2009
	RMB'000	*RMB'000*
Mainland China	**50,910,145**	42,667,572

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

4. SEGMENT INFORMATION (Continued)

(b) Non-current assets

	2010	2009
	RMB'000	*RMB'000*
Mainland China	**8,896,662**	8,698,144
Hong Kong	**9,034**	8,193
	8,905,696	8,706,337

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

		2010	2009
	Notes	***RMB'000***	*RMB'000*
Revenue			
Sale of electrical appliances and consumer electronic products		**50,910,145**	42,667,572
Other income			
Income from suppliers		**2,166,652**	2,221,466
Management fees:			
– from the Non-listed GOME Group	*(i)*	**250,000**	233,541
– from Dazhong Appliances	*(ii)*	**101,577**	25,496
Management fees for air-conditioner installation		**137,676**	98,290
Rental income		**189,438**	127,610
Government grants	*(iii)*	**139,605**	93,497
Other service fee income		**106,221**	102,177
Compensation income from a landlord		**26,193**	59,271
Others		**121,688**	89,057
		3,239,050	3,050,405
Gains			
Gain on repurchases of the Old 2014 Convertible Bonds		**–**	67,083
Gain on redemption of the Old 2014 Convertible Bonds	*14(i)*	**202,578**	–
Foreign exchange difference, net		**–**	14,158
		202,578	81,241
		3,441,628	3,131,646

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Notes:

(i) Beijing Eagle Investment Co., Ltd., Beijing Pengrun Property Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd., Gome Electrical Appliance Retail Co., Ltd. and other companies are collectively referred to as "Non-listed GOME Group". Gome Electrical Appliance Retail Co., Ltd. and its subsidiaries 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 attaching to these government grants.

6. PROFIT BEFORE TAX

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

	Notes	**2010** ***RMB'000***	2009 *RMB'000*
Cost of inventories sold		**44,991,355**	38,408,042
Depreciation		**332,543**	345,597
Amortisation of intangible assets	*(i)*	**9,042**	9,042
Loss on disposal of items of property, plant and equipment		**16,287**	28,798
Minimum lease payments under operating leases in respect of land and buildings		**2,242,618**	2,038,504
Gross rental income	*5*	**(189,438)**	(127,610)
Fair value loss on transfer of owner-occupied properties to investment properties		**–**	81,493
Fair value loss on investment properties		**8,488**	3,723
Management fees from Dazhong Appliances	*5*	**(101,577)**	(25,496)
Interest income from Beijing Zhansheng	*7*	**(174,960)**	(181,182)
Loss/(gain) on the derivative component of convertible bonds	*14(i)*	**93,340**	(136,740)
Gain on redemption of the Old 2014 Convertible Bonds	*14(i)*	**(202,578)**	–
Fair value loss/(gain) on Hong Kong listed investments		**29**	(1,236)
Foreign exchange differences, net		**35,086**	(14,158)
Impairment of goodwill		**–**	2,000
Cash settlement for top-up subscription shares for warrants	*(ii)*	**–**	18,608
Auditors' remuneration			
– audit services		**7,900**	8,100
– non-audit services		**3,100**	1,200
Staff costs excluding directors' remuneration			
Wages, salaries and bonuses		**1,387,039**	1,119,682
Pension scheme contributions		**256,043**	241,200
Social welfare and other costs		**17,507**	6,841
Equity-settled share option expense		**67,368**	53,923
		1,727,957	1,421,646

6. PROFIT BEFORE TAX (Continued)

Notes:

(i) The amortisation of intangible assets for the year is included in "Administrative expenses" in the income statement.

(ii) 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$25,000,000 of new shares of the Company during an exercise period of five years commencing from 1 March 2006 ("Warrants"). None of the Warrants was exercised up to the end of the reporting period.

On 22 June 2009, the Company announced an open offer (the "Open Offer") of not less than 2,296,576,044 open offer shares and not more than 2,484,657,375 open offer shares at the subscription price of HK$0.672 per open offer share on the basis of 18 open offer shares for every 100 existing shares held by the qualifying shareholders on the record date and payable in full on application. Upon the completion of the Open Offer on 31 July 2009, 2,296,576,044 shares of the Company have been issued and fully paid.

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 and the issuance of the 2016 Convertible Bonds (note 14(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 income statement.

The Warrants were exercised in full subsequent to 31 December 2010.

7. FINANCE (COSTS)/INCOME

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

	Notes	**2010** ***RMB'000***	2009 *RMB'000*
Finance costs:			
Interest on bank loans wholly repayable within five years		**(11,266)**	(16,064)
Interest expenses on convertible bonds	*14*	**(430,552)**	(332,905)
		(441,818)	(348,969)
Finance income:			
Bank interest income		**164,076**	160,027
Other interest income	*(i)*	**174,960**	181,182
		339,036	341,209

Note:

(i) Other interest income represented interest income from the RMB3,600 million designated loan (note 11) to Beijing Zhansheng through the Beijing Branch of Industrial Bank Co., Ltd. The loan bears interest at a rate of 4.86% (2009: ranging from 4.86% to 5.103%) per annum, which was determined by reference to the interest rates published by the People's Bank of China.

8. INCOME TAX EXPENSE

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

	2010	2009
	RMB'000	*RMB'000*
Current income tax – PRC	**555,210**	418,120
Deferred income tax	**(7,332)**	(11,810)
Total tax charge for the year	**547,878**	406,310

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% (2009: 25%) on their respective taxable income. During the year, 31 entities (2009: 21 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 2010 and 2009, as the Group had no assessable profits arising in Hong Kong for the respective years.

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:

			2010		
	Hong Kong		**PRC**		**Total**
	RMB'000	*%*	***RMB'000***	*%*	***RMB'000***
Profit/(loss) before tax	**(491,249)**		**3,000,781**		**2,509,532**
Income tax at the statutory tax rate	**(81,056)**	**16.5**	**750,195**	**25.0**	**669,139**
Tax effect of preferential tax rates	**–**		**(253,791)**		**(253,791)**
Income not subject to tax	**(40,191)**		**–**		**(40,191)**
Expense not deductible for tax	**111,871**		**15,597**		**127,468**
Tax losses utilised from previous years	**–**		**(31,257)**		**(31,257)**
Tax losses not recognised	**9,376**		**67,134**		**76,510**
Tax charge at the Group's effective rate	**–**		**547,878**		**547,878**

8. INCOME TAX EXPENSE (Continued)

	2009				
	Hong Kong		PRC		Total
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*
Profit/(loss) before tax	(239,935)		2,072,444		1,832,509
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	7,978		64,544		72,522
Tax charge at the Group's effective rate	–		406,310		406,310

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 2010, 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 (2009: Nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

9. 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 15,502,678,000 (2009: 13,721,430,000) 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, fair value gain or loss on the derivative component of the convertible bonds, gain on redemption of the convertible bonds and gain on repurchases of the convertible bonds. 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:

	2010	2009
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**1,961,654**	1,409,288
Interest on the Old 2014 Convertible Bonds	**53,686**	189,770
Fair value loss/(gain) on the derivative component of the Old 2014 Convertible Bonds	**93,340**	(136,740)
Gain on redemption of the Old 2014 Convertible Bonds	**(202,578)**	–
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	**1,906,102**	1,395,235

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

	Notes	Number of shares 2010 '000	2009 '000
Shares			
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation		**15,502,678**	13,721,430
Effect of dilution – weighted average number of ordinary shares:			
Warrants		**34,626**	31
Share options	*(i)*	**51,125**	–
Convertible bonds	*(ii)*	**260,715**	944,754
		15,849,144	14,666,215

Notes:

(i) 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.

(ii) 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 not included in the calculation of diluted earnings per share.

The New 2014 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2010 and were therefore not included in the calculation of diluted earnings per share.

Therefore, only the effect of the Old 2014 Convertible Bonds was included in the calculation of diluted earnings per share for the year ended 31 December 2009 and 2010.

The Old 2014 Convertible Bonds that were redeemed during the year ended 31 December 2010 were included in the calculation of diluted earnings per share only for the portion of the period during which they are outstanding. As at 31 December 2010, the Old 2014 Convertible bonds with an aggregate principal amount of RMB149,400,000 remained outstanding (note 14(i)).

10. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Interim: Nil (2009: Nil)	**–**	–
Proposed final: HK$4.1 cents (equivalent to RMB3.5 fen) (2009: Nil) per ordinary share	**582,275**	–
	582,275	–

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

11. DESIGNATED LOANS

The designated loan to Huihai

The designated loan ("Huihai Loan") of RMB48 million as at 31 December 2010 represented the aggregate amount of a loan provided to Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. ("Huihai"), a company established by employees of the Group, through Beijing Branch of China Bohai Bank Co., Ltd. The Huihai Loan is to be used by Huihai for the sole purpose of capital injection into Kuba Technology (Beijing) Co., Ltd. ("Kuba") to acquire an 80% equity interest in Kuba which was established by independent third parties on 10 August 2010 in the PRC and mainly engaged in online sales of electrical appliances. The Huihai Loan has a term of five years and bears interest rate at 4.86% per annum, which is determined by reference to the interest rate published by the People's Bank of China.

Pursuant to an equity pledge agreement in January 2011, the equity holder of Huihai pledged the equity interest in Huihai to the Group, as security for the Huihai Loan.

Pursuant to another equity pledge agreement in January 2011, Huihai pledged to the Group the 80% equity interests of Kuba as security for the Huihai Loan.

The designated loan to Beijing Zhansheng

The designated loan of RMB3,600 million as at 31 December 2010 (31 December 2009: RMB3,600 million) represented the aggregate amount of loan provided to Beijing Zhansheng by the Group through the Beijing Branch of Industrial Bank Co., Ltd. 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.

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 Dazhong"), 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 approval from the PRC government authorities and other terms and conditions of the option agreement.

As at the date of the consolidated financial statements, the board of directors of the Company is considering to exercise the Purchase Option on Dazhong in the near future.

12. TRADE AND BILLS RECEIVABLES

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

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

	2010	2009
	RMB'000	*RMB'000*
Outstanding balances, aged:		
Within 3 months	**204,240**	50,419
3 to 6 months	**1,489**	3,071
6 months to 1 year	**284**	273
Over 1 year	**89**	436
	206,102	54,199

The balance at 31 December 2010 included the trade receivables from Dazhong Appliances of RMB118,223,000 (2009: Nil). During the year, the Group sold electrical appliances and consumer electronic products to Dazhong Appliances amounting to RMB1,430,654,000 (2009: RMB76,375,000).

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

	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	**197,356**	49,582
Less than 3 months past due	**6,884**	837
Over 3 months past due	**1,862**	3,780
	206,102	54,199

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

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

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

13. TRADE AND BILLS PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	**5,757,564**	4,159,579
Bills payable	**11,142,119**	11,655,682
	16,899,683	15,815,261

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:

	2010 RMB'000	2009 RMB'000
Within 3 months	**8,163,552**	9,617,687
3 to 6 months	**8,443,194**	5,921,009
Over 6 months	**292,937**	276,565
	16,899,683	15,815,261

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

(i) the pledge of the Group's time deposits;

(ii) the pledge of certain of the Group's inventories;

(iii) the pledge of certain of the Group's buildings;

(iv) the pledge of certain of the Group's investment properties; and

(v) the corporate guarantees provided by the Non-listed GOME Group.

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

14. CONVERTIBLE BONDS

	Notes	2010 RMB'000	2009 RMB'000
Liability components:			
Old 2014 Convertible Bonds	*(i)*	**129,976**	2,281,046
2016 Convertible Bonds	*(ii)*	**–**	1,502,733
New 2014 Convertible Bonds	*(iii)*	**1,814,069**	1,672,176
		1,944,045	5,455,955
Derivative component:			
Old 2014 Convertible Bonds	*(i)*	**(7,349)**	(100,689)
		1,936,696	5,355,266
Classified as current liabilities		**(122,627)**	(2,180,357)
Non-current liabilities		**1,814,069**	3,174,909

14. CONVERTIBLE BONDS (Continued)

(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 anytime 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 USD 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 the transaction.

The conversion price of the Old 2014 Convertible Bonds was HK$4.46 per share as at 31 December 2009 and 2010. No adjustment was made to the conversion price during the year ended 31 December 2010.

On 18 May 2010, the Company redeemed part of the Old 2014 Convertible Bonds with an aggregate principal amount of RMB2,625,900,000 pursuant to redemption notices received from the bondholders in accordance with the terms and conditions of the Old 2014 Convertible Bonds. The bonds redeemed were cancelled. The consideration for the redemption was allocated to the liability component, the derivative component and the equity component of the Old 2014 Convertible Bonds at the date of the redemption. 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 date of the redemption based on the valuations performed by Jones Lang LaSalle Sallmanns Limited ("Sallmanns") 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 Sallmanns using an option pricing model. The amount of redemption gain which related to the liability component amounting to RMB202,578,000 was recognised in profit or loss and the amount of consideration which related to the equity component of RMB683,330,000 was recognised in equity.

As at 31 December 2010, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB149,400,000 remained outstanding.

14. CONVERTIBLE BONDS (Continued)

(i) RMB denominated USD settled zero coupon convertible bonds due in 2014 (Continued)

The movements of the liability component, derivative component and equity component of the Old 2014 Convertible Bonds for 2009 and 2010 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 2009	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	2,281,046	(100,689)	970,813	3,151,170
Interest expenses	53,686	–	–	53,686
Fair value adjustment	–	93,340	–	93,340
Redemption of bonds	(2,204,756)	–	(683,330)	(2,888,086)
At 31 December 2010	129,976	(7,349)	287,483	410,110

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

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

On 3 August 2009, the Company issued RMB denominated USD settled 5% coupon convertible bonds due in 2016 in an aggregate principal amount of RMB1,590 million to Bain Capital Glory Limited.

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

(a) convertible at the option of the bondholder, at anytime 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;

(b) redeemable at the option of the bondholder on or at anytime 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 bondholder upon the occurrence of a specified event or any of the events 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.

14. **CONVERTIBLE BONDS (Continued)**

(ii) RMB denominated USD settled 5% coupon convertible bonds due in 2016 (Continued)

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.

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 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 fairly 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 independent professional valuers 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.

On 15 September 2010, the Company announced that it received a conversion notice from the bondholder to convert the 2016 Convertible Bonds in full into 1,630,702,330 conversion shares at the conversion price of HK$1.108 per conversion share in accordance with the terms of the convertible bonds. The 2016 Convertible Bonds had been recognised as liability and interest was accrued at 5% per annum. Upon conversion, the liability component of the 2016 Convertible Bonds of RMB1,576,448,000 and the equity component of RMB137,411,000 were transferred to equity.

The movements of the liability component and equity component of the 2016 Convertible Bonds for 2009 and 2010 are as follows:

	Liability component of convertible bonds	**Equity component of convertible bonds**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
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	1,502,733	137,411	1,640,144
Interest expenses	164,257	–	164,257
Interest paid	(90,542)	–	(90,542)
Conversion of bonds	(1,576,448)	(137,411)	(1,713,859)
At 31 December 2010	–	–	–

14. **CONVERTIBLE BONDS (Continued)**

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

On 23 September 2009 and 25 September 2009, the Company issued RMB denominated USD settled 3% coupon convertible bonds due in 2014 with an aggregate principal amount of 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 to 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 to 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 anytime after 25 September 2012 in all, but not some, only of the bonds for the time being outstanding at a USD amount equivalent to 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 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 fairly 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 independent professional valuers 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.

The movements of the liability component and equity component of the New 2014 Convertible Bonds for 2009 and 2010 are as follows:

	Liability component of convertible bonds	**Equity component of convertible bonds**	Total
	RMB'000	*RMB'000*	*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	1,672,176	688,021	2,360,197
Interest expenses	212,609	–	212,609
Interest paid	(70,716)	–	(70,716)
At 31 December 2010	1,814,069	688,021	2,502,090

15. EVENTS AFTER THE REPORTING PERIOD

Warrants

The Company received an exercise notice from the holder of the Warrants (the "Warrantholder") on 17 January 2011 to exercise in full its right under the Warrants to subscribe for new ordinary shares in the Company of HK$0.025 each in the amount of US$25,000,000. An aggregate of 108,790,252 ordinary shares have been issued by the Company to the Warrantholder on 24 January 2011 at the exercise price of US$0.2298 per share. The shares issued rank pari passu with the existing shares of the Company and represent approximately 0.647% of the issued share capital of the Company as enlarged by the issue of new shares.

After the exercise of the Warrants, the Company does not have any outstanding Warrants.

Share option

Subsequent to 31 December 2010, the subscription rights attaching to 21,742,000 share options were exercised at the subscription price of HK$1.9 per share, resulting in the issue of 21,742,000 shares.

Change in directors

On 10 March 2011, Mr. Chen Xiao resigned as the chairman of the board of director and executive director of the Company. Mr. Sun Yi Ding also resigned as executive director of the Company. On the same day, Mr. Zhang Da Zhong was appointed as non-executive director of the Company and chairman of the board of directors of the Company, and Mr. Lee Kong Wai, Conway was appointed as independent non-executive director of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In 2010, the Group continued to implement the five-year plan adopted by the Board, resulting in outstanding performance. In line with our store management refinement push, the Group continued to close underperforming stores, open new outlets in regions supported by its optimized logistics networks, and improve store sales over the reporting period, with satisfactory results. As at the end of the reporting period, the Group's total number of stores rose to 826 from 726 in the previous year, following the closure of 39 underperforming stores and the opening of 139 new stores. Following the remodeling of our stores, the operational efficiency of individual premises improved significantly, as demonstrated by the 21.80% growth in comparable store sales.

The Group recorded a revenue of approximately RMB50,910 million over the reporting period, up 19.32% from approximately RMB42,668 million the previous year. Profit attributable to owners of the parent rose 39.25% to approximately RMB1,962 million from approximately RMB1,409 million over the corresponding period of the previous year.

On 18 May 2010, the Company redeemed part of the zero-coupon convertible bonds due in 2014 (the "Old 2014 Convertible Bonds") with an aggregate principal amount of RMB2,625,900,000, pursuant to the terms of these bonds. As at 31 December 2010, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB149,400,000 remained outstanding. On 22 September 2010, the Company received a conversion notice from Bain Capital Glory Limited to convert the 5% convertible bonds due in 2016 (the "2016 Convertible Bonds") in full, into 1,630,702,330 conversion shares at the conversion price of HK$1.108 per share. The redemption and conversion effectively reduced the Group's overall liabilities, improving its debt to total equity ratio.

During the reporting period, the Company's management consistently implemented a five-year blueprint formulated by the Group and designed to maximize long-term value for the benefit of all shareholders. The core elements of this five-year plan are as follows. First, expansion of the store network, with supply chain management enhancement, establishment of new regional logistics centers, and development of new model stores. Second, operating efficiency improvement, including wider product choice, refined supplier arrangements, and introduction of differentiated products with high profit margins. Third, ongoing improvement of relations with both suppliers and customers. And finally, development of new business lines.

As a leading home appliance retailer in China, the Company has always been an industry pioneer. The Company moved quickly to maintain its leadership position in response to rapid market changes with a series of initiatives. First, it intensified its focus on multi-channel and multi-platform business development, with strong results in e-commerce and expansion into second-tier markets. Second, it reinforced core retail operations by planning and securing hardware for a nationwide ERP system, with software development and system testing in progress. Third, it enhanced store operating efficiency by transforming existing stores in first-tier markets and upgrading 185 stores in second-tier locations (the "185 Project"). Fourth, it continued to develop an ODM/OEM supplier system, to realize profit differentiation and consequently boost the overall profits of the Group.

FINANCIAL REVIEW

REVENUE

During the reporting period, the Group's revenue was approximately RMB50,910 million, up approximately 19.32% from RMB42,668 million in 2009. The Group's weighted average sales area was approximately 2,734,000 sq.m.. The Group's revenue per sq.m. was approximately RMB18,621, up 22.64% as compared to RMB15,184 in the corresponding period of 2009.

Aggregate sales of 638 comparable stores recorded a revenue of RMB46,850 million in 2010, up 21.80% from RMB38,465 million in the corresponding period of 2009. Revenue mix by region remained largely the same as last year. Sales revenue from the four regions of Shanghai, Beijing, Guangzhou and Shenzhen amounted to RMB23,040 million, accounting for 45.26% of the total revenue.

COST OF SALES AND GROSS PROFIT

Cost of sales of the Group was approximately RMB44,991 million in the reporting period, accounting for 88.37% of the total revenue, lower than the proportion of 90.02% in the corresponding period of 2009. Gross profit was approximately RMB5,919 million, up approximately 38.94% from approximately RMB4,260 million in the previous year. Gross profit margin was 11.63%, up 1.65 percentage points from 9.98% in the previous year. The main reason was that the Company adopted a business strategy of differentiated products and fully cooperated with suppliers, thus enhancing the gross profit margin.

OTHER INCOME AND GAINS

During the reporting period, the Group recorded other income and gains of approximately RMB3,442 million, representing an increase of 9.90% over that of RMB3,132 million in 2009. The percentage of income from suppliers over sales revenue was 4.26%, lower than 5.21% for the previous year, which was mainly due to the standardization of contracts between the Group and suppliers in the reporting period, which caused more income to be directly reflected in gross profit.

Summary of other income and gains:

	2010	**2009**
As a percentage of sales revenue:		
Income from suppliers	4.26%	5.21%
Management fees from the Non-listed GOME Group	0.49%	0.55%
Management fees for air-conditioner installation	0.27%	0.23%
Government grants	0.27%	0.22%
Rental income	0.37%	0.30%
Income from extended warranty	0.30%	0.24%
Management fees from Dazhong Appliances	0.20%	0.06%
Others	0.60%	0.53%
Total	6.76%	7.34%

CONSOLIDATED GROSS PROFIT MARGIN

During the reporting period, the Group's consolidated gross profit margin reached 18.39%, representing an increase of 1.07 percentage points as compared to 17.32% for the previous year. The increase in consolidated gross profit margin reflected the advantage of product differentiation, economies of scale and increased operating efficiency.

OPERATING EXPENSES

During the reporting period, the Group's total operating expenses (including sales and distribution costs, administrative expenses and other expenses) were approximately RMB6,655 million, accounting for 13.07% of total sales revenue, down 0.26 percentage points as compared to the percentage of 13.33% for the previous year.

Summary of operating expenses:

	2010	2009
As a percentage of sales revenue:		
Selling and distribution costs	10.05%	10.20%
Administrative expenses	2.29%	1.98%
Other expenses	0.73%	1.15%
Total	13.07%	13.33%

SELLING AND DISTRIBUTION COSTS

During the reporting period, the Group's total selling and distribution costs amounted to RMB5,114 million. The percentage over revenue was 10.05%, down 0.15 percentage points as compared to 10.20% in the corresponding period of 2009.

ADMINISTRATIVE EXPENSES

With the expansion of the Group's operating scale and the need to support its enhanced management, administrative expenses were increased. During the reporting period, the Group's administrative expenses were RMB1,165 million, higher than that of RMB845 million in the corresponding period of 2009 by 37.87%. However, the administrative expenses were still maintained at a relatively low level in the industry due to strong control over expenses by the Group.

OTHER EXPENSES

Other expenses of the Group mainly comprised, among others, business tax, bank charges, impairment on revaluation of investment properties and exchange loss. Other expenses were approximately RMB375 million during the reporting period, down 23.47% from RMB490 million in 2009, which was mainly attributable to reduction in fair value loss of investment properties during the year.

PROFIT FROM OPERATING ACTIVITIES

During the reporting period, the Group's profit from operating activities was RMB2,706 million (2009: RMB1,704 million), representing an increase of 58.80%, which was mainly attributable to an increase in the consolidated gross profit margin and keeping the operating expenses at a reasonable level.

NET FINANCE LOSS

During the reporting period, affected by increase in the interest on convertible bonds, the Group's net finance loss were approximately RMB103 million, higher than approximately RMB8 million in 2009. However, finance interest income remained essentially unchanged as compared with 2009.

PROFIT BEFORE TAX

During the reporting period, the Group's profit before tax was approximately RMB2,510 million, accounting for approximately 4.93% of the sales revenue, representing an approximately 36.93% increase as compared with RMB1,833 million in 2009.

INCOME TAX EXPENSE

During the reporting period, the Group's income tax expense was approximately RMB548 million as compared to RMB406 million in 2009. The management considers the tax rate applied to the Group for the reporting period is reasonable.

NET PROFIT AND EARNINGS PER SHARE

During the reporting period, the Group's profit attributable to owners of the parent company was approximately RMB1,962 million, representing a substantial increase of 39.25% as compared with RMB1,409 million for the previous year. Net profit margin was 3.85%, increased by 0.55 percentage points as compared to 3.30% for the previous year. Basic earnings per share were RMB0.127, representing a growth of 23.30% as compared with RMB0.103 for the previous year.

CASH AND CASH EQUIVALENTS

As at the end of the reporting period, cash and cash equivalents held by the Group were approximately RMB6,232 million, representing an increase of 3.37% as compared with RMB6,029 million as at the end of 2009.

INVENTORIES

As at the end of the reporting period, the Group's inventories amounted to approximately RMB8,085 million up 23.78% as compared to RMB6,532 million at the end of 2009. The inventory turnover period slightly increased to 59 days from 57 days in 2009, which was mainly attributable to the increased inventory level at the end of 2010 to prepare for the upcoming New Year and the Lunar New Year holidays. The expansion of second-tier markets and the longer logistics supply chain also contributed to the higher inventory level.

PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

As at the end of the reporting period, prepayment, deposits and other receivables of the Group amounted to approximately RMB2,446 million, up 43.71% from approximately RMB1,702 million as at the end of 2009. The main reason for the increase was that the Group capitalized on the state policy and increased the receivables relating to the implementation of the "exchange old for new program".

TRADE AND BILLS PAYABLES

As at the end of the reporting period, trade and bills payables of the Group amounted to approximately RMB16,900 million, up 6.86% from approximately RMB15,815 million as at the end of 2009. Trade and bills payables turnover days were approximately 132 days, decreased by 5 days as compared to 137 days for the previous year.

CAPITAL EXPENDITURE

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB555 million, representing a 67.17% increase as compared with approximately RMB332 million in 2009. The increase was mainly due to additional expenses arising from opening new stores, the transformation of stores and the purchase of hardware equipment relating to ERP upgrade by the Group during the year, as well as increase in the designated loan for the purpose of capital injection into Kuba.

CASH FLOWS

During the reporting period, the Group's net cash flows from operating activities amounted to approximately RMB3,873 million, compared with net cash flows used of RMB175 million in 2009.

Net cash flows used in investing activities amounted to approximately RMB553 million, representing an increase of 88.10% as compared with RMB294 million in 2009, as the Group increased the capital expenditure for store transformation and capital injection into Kuba during the year.

Net cash flows used in financing activities amounted to approximately RMB3,102 million, mainly contributed by redemption of Old 2014 Convertible Bonds during the year, as compared to net cash inflows of RMB3,467 million in 2009.

FINAL DIVIDEND AND DIVIDEND POLICY

The Board recommended a final dividend of HK$4.1 cents (equivalent to RMB3.5 fen) per ordinary share (the "Final Dividend") for the year ended 31 December 2010, amounting to approximately HK$684,280,000 (equivalent to RMB582,275,000). The payment of the Final Dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting. The Company will announce the record date for the Final Dividend, the book closure dates for determining the entitlement for the Final Dividend and the proposed payment date of the Final Dividend in due course in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and applicable laws.

Currently, the Board anticipates that the dividend payout ratio will be maintained at approximately 30% of the Group's distributable profit of the relevant financial year. However the actual payout ratio in a financial year will be determined at the Board's full discretion, after taking into account, among other considerations, availability of investment and acquisition 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 commitments of approximately RMB177 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. However, as Renminbi has been appreciating against HK dollars and US dollars, the Group's short-term HK dollars and US dollars deposits recorded an exchange loss in the period. The Group has adopted effective measures to reduce such risks. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

The management 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, convertible bonds and bank loans.

As at 31 December 2010, the total borrowings of the Group, being interest-bearing bank borrowings and convertible bonds, amounted to about RMB2,037 million. Of the total borrowings, RMB223 million will be repayable in 2011, RMB1,814 million will be repayable beyond 2011. The Group's financing activities continue to be supported by its bankers.

As at 31 December 2010, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to RMB2,037 million over total equity amounting to RMB14,735 million, decreased to 13.82% from 48.34% as at 31 December 2009. The main reasons were that the Group redeemed aggregate principal amount of RMB2,625.90 million of Old 2014 Convertible Bonds during the year, and principal amount of RMB1,590 million of 2016 Convertible Bonds were converted into shares of the Company. The above redemption and conversion of convertible bonds have resulted in a reduction of overall liabilities.

CHARGE ON GROUP ASSETS

As at the end of 2010, the Group's bank acceptance credit, bills payable and PRC bank loans were secured by the Group's time deposits amounting to RMB6,268 million and certain inventories with a carrying value of RMB500 million and certain buildings and self-owned properties of the Group with a carrying value of RMB2,341 million. The Group's bills payable and PRC bank loans amounted to RMB11,242 million.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2010, the Group employed a total of 49,470 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

2011 is the first year of China's Twelfth Five-Year Plan for National Economic and Social Development ("Twelfth Five-Year Plan"), which follows a core focus on expanding domestic demand. The means to expand domestic demand include adjusting income distribution, attempting to raise citizens' income level substantially, and supporting urban construction. As well as expansion, the Twelfth Five-Year Plan also focuses on social security and improvement of people's living standards, especially through housing. The PRC Government has resolved to build 36 million units of social housing over the next five years, which will lead to a considerable follow-on rise in spending on electrical appliances. This favorable external policy environment will further escalate growth in the home electrical appliances retail sector. As it pursues its goal of building a first-class home electrical appliances retail enterprise in China, the Group has set out strategic guidelines for "forging a lead in 2011 through maximum effort and minimal waste".

EXPANDING NETWORK COVERAGE

In 2010, the Group transformed its existing stores across the board, achieving strong results in same-store sales growth. In 2011, it will further increase its pace of expansion, building on the solid foundation laid down in the previous year. Applying a cluster development model, the Group will concentrate on opening stores in key regions, particularly megastores and flagship stores, especially the five major metropolitan areas of Greater Beijing, Greater Shanghai, Shandong, Greater Sichuan and Greater Canton. In second-tier markets, the Group will also speed up the pace of store opening to enhance and expand coverage, while always remaining conscious of the need to preserve its supply chain. By simultaneous concerted effort in top-tier and second-tier markets, the Group will maintain its leadership of the home electrical appliance retail industry.

STRENGTHENING STORE OPERATING EFFICIENCY

The Group will continue to prioritize the transformation of existing stores to enhance its retail category management in 2011. The Group will continue to optimize its brands, models and products, and will further develop its marketing of individual products, via techniques such as advertising and promotions, plus theme and event marketing, to enhance our store operations, management, and sales capabilities.

IMPLEMENTING A DIFFERENTIATION STRATEGY

The Group understands and appreciates product differentiation, as a basis for diversifying its business channels and creating new earnings streams. This requires rapid introduction of the latest and most popular models and ranges, as well as a diverse selection of products to meet customers' fast-developing needs. This approach will secure our dominant market position and raise our gross profit margins. The Group will continue to pursue this strategy through exclusive sale, custom-tailoring, ODM and OEM manufacture, as well as accessories, and apply a centralized purchasing and distribution methodology to increase overall profitability on differentiated goods.

The management believes that providing differentiated products and services will be a key factor in enhancing the competitiveness of the Group. In future, the Group will work even harder to promote and foster product differentiation, as an important new driver for the Company's profit growth.

STRENGTHENING 3C BUSINESS

3C products – digital devices, such as computers, cameras and communications equipment – typically having fast product upgrades will enjoy tremendous market demand in the near future as the market matures. They therefore will become a core focus for the Group. Consequently, the Group has set up a 3C business center to focus on developing this sector.

Over 2011, the Group intends to develop this sub-sector in four directions: launching more 3C accessories; enhancing and accelerating its cooperation with operators; strengthening product management capabilities; and improving store operations. The Group will raise its emphasis on promoting differentiated 3C products, including accessories which generating higher profit margin. The Group will also take a new approach to developing nationwide cooperation with China's key telecom operators, selling their products and to speed up coverage across all stores and enable the creation of sales and service counters as well as dedicated mobile zones for the operators in our stores. The Group's emphasis will shift from brand management to product category management. These various measures will increase the proportion of sales accounted for by 3C products, will attract and retain more customers in our stores, and will enhance our profitability.

DEVELOPING SECOND-TIER MARKETS

With China's steady urbanization under way, second-tier markets will account for more than half of total home electrical appliances market share within the next five years. The Group will accelerate store opening in these markets, and prioritize the formulation of strategic guidelines for second-tier and third-tier markets in its five focus clusters. We will further enhance the rollout of supply, management, logistics and distribution chains to ensure rapid and effective expansion of our second-tier market coverage. We will continue to transform and enhance our second-tier store concept. We will strengthen our supply chains by centralizing the procurement in the second-tier markets, with connecting the first- and second-tier supply chains. These strategic initiatives will enhance the Group's competitive strengths in second-tier markets.

VIGOROUS DEVELOPMENT OF E-COMMERCE

According to research from the China Electronic Commerce Center, the value of China's online retail transactions surpassed RMB510 billion in 2010, a year-on-year increase of 22%. In the 3C home electronics retail sector alone, online sales are expected to account for 10-15% of sales in this category within the next five years. Meanwhile, as e-commerce-related logistics systems develop, online sales of traditional home electronics appliances will also expand. E-commerce therefore presents significant growth potential and business opportunities.

The Group will establish a dedicated e-commerce operations and management team to meet customer demand for multi-channel shopping. We will increase online sales platforms through approaches including M&A and in-house construction, to capture the advantages of online/offline integration, leveraging our well-developed distribution networks to complement our existing physical stores, and maintaining our market leadership.

ADOPTING NEW BUSINESS INFORMATION SYSTEMS

The Group's nationwide sales and marketing network in large and medium-sized cities can deliver much valuable business intelligence on every aspect of procurement, storage, sales and back-office administration, which can be drawn on to capture performance and market trends in real time, given the right systematic approach to data gathering and collection.

Therefore, the Group commenced the ERP Leader Navigation Project, with an aim to upgrade and transform its existing software systems by adopting the world's best ERP software, in accordance with its 2010 blueprint. In 2011, the Group intends to complete the implementation of the first phase of its ERP Leader Navigation Project. We will use this advanced software system to capture and fully exploit valuable business information, enhancing overall management capabilities and driving down operating costs.

STRENGTHENING LOGISTICS SYSTEMS

Logistics is a core capability of the retail home appliances sector, and has always been a key focus of the Group's development. In 2011, the Group will build out logistics centers in pivotal regions with high sales volumes and significant market share. These centers will integrate logistics and information flow between the Group and its suppliers, based on a collective management approach. This will narrow the traditional gap between the Group and the traditional logistics operations of its suppliers, and will optimize command and control of various procedures, all the way from suppliers to end users, including information systems, warehousing and order delivery, while enhancing management of logistics information. Collaborative supply chains between the Group and our suppliers will also become more seamless and efficient following the full implementation of the new ERP systems, enhancing sharing of internal warehouses, rationalizing the Group's warehousing structure, and optimizing utilization of capital on warehousing.

OPTIMIZING AFTER-SALES SERVICE

The Group will continue to optimize its after-sales service networks in 2011. Firstly, it will focus on improving its comprehensive service provision at its Home Appliance Clinics, building up E-express service centers. While delivering existing 3C product diagnosis and maintenance services, the E-express service centers will enhance our service coverage in various fields by offering value-added services, including consultation, installation, debugging and accessories. These E-express services are expected to fully cover first-tier markets by end 2011. On the other hand, the Group will integrate its self-established, contracted and complementary maintenance outlets to optimize its service capability. Concurrently, the Group will also establish comprehensive service centers in key locations, conclusively rolling out its after-sales services for traditional home appliances in these areas.

ENHANCING RELATIONSHIPS WITH SUPPLIERS

Retailers and suppliers are strategic partners, with our shared interests positively correlated. In 2011, we will continue to enhance our win-win strategy with suppliers, tapping our integrated service platform to develop smooth, sustainable and mutually beneficial relationships with them. By developing our business model from "shopping mall model" operation to "merchandize management model", we will reduce deliver costs for suppliers while raising the input-output ratio on both sides.

As a leading Chinese chain store retailer, the Group will continue to press for the evolution of the industry, and will construct a supplier performance management platform to optimize its supply chain. We will continue to enhance standardized management of suppliers' contracts, and increase our focus on exclusive sale. We will endeavor to make our new-model stores the preferred platform for every first launch by our suppliers. And, always conscious of sustainable profitability for retailers and suppliers, we will look closely at maintaining the sustainable and healthy development of the entire industry. Together with its suppliers, the Group will seek to become an exemplar internationally for home electrical appliance sales.

CAPITALIZING ON CHINA'S FISCAL POLICIES

As a leading home appliances retail chain, the Group is a formulator, participant and key executor of China's fiscal stimulus policies. The Group has become a major force in their implementation, thanks to its high-quality and low-priced goods, its stable and comprehensive supply chain, its sound logistics and distribution systems, and its after-sales network, as well as its innovative sales and service models.

The Group will continue to specifically prioritize these fiscal stimulus policies, including the "go rural", "exchange old for new" and "energy-saving subsidies" programs, adapting its network build out and operation responsively while increasing its sales revenue and operating efficiency, to answer the national call for "driving domestic demand, maintaining growth and fostering development" as part of its commitment to corporate citizenship.

CORPORATE GOVERNANCE

During the year ended 31 December 2010, the Company was in compliance with the code provision of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules, save for the deviations disclosed below. 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. As disclosed in the announcements of the Company dated 28 November 2008 and 18 January 2009, as a result of Mr. Wong Kwong Yu's inability to perform his duties as a Director and the Chairman of the Company, the Board appointed Mr. Chen Xiao who was an executive Director and the President of the Company at that time as the Acting Chairman of the Company with effect from 27 November 2008 and subsequently the Chairman of Company with effect from 16 January 2009. As Mr. Chen Xiao, who was the President of the Company until 28 June 2010, has been performing the role and function of the chief executive officer of the Company as well as the Chairman of the Board until 28 June 2010, when Mr. Wang Jun Zhou was appointed as the President of the Group as more particularly described below, it constituted a deviation from code provision A.2.1 of the CG Code during the period from 27 November 2008 to 28 June 2010. Given that Mr. Chen Xiao had been the President of the Company since completion of the Group'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 was then in the best interest of the Group and its shareholders as a whole to have Mr. Chen Xiao to perform the functions and roles as the President and the Chairman of the Company during the interim period to provide stability to the Group and to oversee the operations of the Group in the circumstances.

With the crisis of the Group over, the Board reviewed the effectiveness of the Group's corporate governance structure, including separation of the roles of the Chairman and the President of the Company, and appointed Mr. Wang Jun Zhou as the President of the Company in place of Mr. Chen Xiao with effect from 28 June 2010 in order to satisfy the requirement for separation of roles of the Chairman and the chief executive officer of the Company under the CG Code. Since then, the roles and functions of the Chairman and the chief executive officer of the Company have been performed by Mr. Chen Xiao and Mr. Wang Jun Zhou respectively in compliance with the CG Code.

During the period under review until 28 June 2010, Mr. Chen Xiao served as the Chairman of the Company, who was primarily responsible for providing leadership to the Board, and also served as the President of the Company and an executive Director, undertaking the duties of the chief executive officer of the Company to oversee the business of the Group and executing decisions of the Board.

As disclosed in the announcement of the Company dated 9 March 2011, with effect from 10 March 2011, Mr. Chen Xiao has resigned as the Chairman and executive Director of the Company and, Mr. Zhang Da Zhong is appointed as the Chairman and non-executive Director of the Company.

Under code provision B.1.1 of the CG Code, a majority of the members of the remuneration committee should be independent non-executive directors. As disclosed in the announcement of the Company dated 10 November 2010, pursuant to the provision of the memorandum of understanding dated 10 November 2010 between the Company and Shinning Crown Holdings Inc. (the "MOU"), Ms. Huang Yan Hong, a non-executive Director, was appointed a member of the Remuneration Committee of the Board with effect from 17 December 2010. Since her appointment on 17 December 2010, the Remuneration Committee consists of three independent non-executive Directors, one executive Director and two non-executive Directors and hence, such composition of the Remuneration Committee constituted a deviation from code provision B.1.1 of the CG Code. After the enlargement of the Board and the changes in the Board composition as a result of the additional appointment of an executive director and a non-executive director pursuant to the MOU on 17 December 2010, the Board has reviewed the ratio of independent non-executive directors in the composition of the Board and its committees, and subsequently appointed Mr. Lee Kong Wai, Conway as an independent non-executive Director of the Company and a member of the Remuneration Committee with effect from 10 March 2011 in compliance with the requirement under code provision B.1.1 of the CG Code.

AUDIT COMMITTEE

The Audit Committee of the Company comprises Messrs. SZE Tsai Ping, Michael, CHAN Yuk Sang, Thomas Joseph MANNING and Lee Kong Wai, Conway, 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 annual results of the Group for the year ended 31 December 2010 and the auditors' report thereon and submitted its reports to the Board.

PURCHASE, SALE AND REDEMPTION OF SHARES

On 18 May 2010, the Company had redeemed the Old 2014 Convertible Bonds in the principal amount of RMB2,625,900,000. The redeemed bonds had been cancelled upon the redemption. As at 31 December 2010, the principal amount of the Old 2014 Convertible Bonds outstanding was RMB149,400,000.

In addition, the Company had received a conversion notice from the bond holder of the 2016 Convertible Bonds on 15 September 2010 and accordingly had converted the 2016 Convertible Bonds in its principal amount of RMB1,590,000,000 in full into 1,630,702,330 ordinary shares of the Company at the conversion price of HK$1.108 per share on 22 September 2010. The 2016 Convertible Bond had been cancelled upon the issue of the conversion shares.

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 2010.

PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

This announcement will be published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company (www.gome.com.hk). The 2010 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
Zhang Da Zhong
Chairman

Hong Kong, 28 March 2011

As at the date of this announcement, the Board comprises Mr. Ng Kin Wah, Mr. Wang Jun Zhou, Ms. Wei Qiu Li and Mr. Zou Xiao Chun as executive directors; Mr. Zhang Da Zhong, Mr. Zhu Jia, Mr. Ian Andrew Reynolds, Ms. Wang Li Hong and Ms. Huang Yan Hong as non-executive directors; and Mr. Sze Tsai Ping, Michael, Mr. Chan Yuk Sang, Mr. Thomas Joseph Manning and Mr. Lee Kong Wai, Conway as independent non-executive directors.

* *For identification purpose only*