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国美电器

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 2011

2011 FINANCIAL HIGHLIGHTS

- All businesses achieved healthy and sustainable growth, and the business development plans made in the beginning of the year were well executed
- Revenue for the year amounted to RMB59,821 million, representing a year-on-year increase of 17.50%
- Consolidated gross profit margin (gross profit margin plus other income and gain margin) was 18.15% as compared to 18.39% last year
- Profit attributable to owners of the parent company was RMB1,840 million as compared to RMB1,962 million last year
- Basic earnings per share were RMB0.109 as compared to RMB0.127 last year
- Revenue from comparable stores increased by 3.06% as compared to 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 2011 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	**59,820,789**	50,910,145
Cost of sales		**(52,264,259)**	(44,991,355)
Gross profit		**7,556,530**	5,918,790
Other income and gain	5	**3,302,082**	3,441,628
Selling and distribution costs		**(6,903,543)**	(5,114,303)
Administrative expenses		**(1,218,501)**	(1,165,138)
Other expenses		**(413,238)**	(375,323)
Profit from operating activities		**2,323,330**	2,705,654
Finance costs	7	**(241,772)**	(441,818)
Finance income	7	**400,291**	339,036
Loss on the derivative component of convertible bonds	15(i)	**(7,349)**	(93,340)
PROFIT BEFORE TAX	6	**2,474,500**	2,509,532
Income tax expense	8	**(673,154)**	(547,878)
PROFIT FOR THE YEAR		**1,801,346**	1,961,654
Attributable to:			
Owners of the parent company		**1,839,867**	1,961,654
Non-controlling interests		**(38,521)**	–
		1,801,346	1,961,654
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY	9		
– Basic		**RMB10.9 fen**	RMB12.7 fen
– Diluted		**RMB10.9 fen**	RMB12.0 fen

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2011

	Note	**2011** **RMB'000**	2010 RMB'000
PROFIT FOR THE YEAR		**1,801,346**	1,961,654
OTHER COMPREHENSIVE INCOME/(LOSS)			
Changes in fair value of other investments	*11*	**18,090**	(25,650)
Gains on property revaluation		**741**	25,204
Income tax effect		**(185)**	(6,301)
		556	18,903
Exchange differences on translation of foreign operations		**(15,916)**	(15,162)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**2,730**	(21,909)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**1,804,076**	1,939,745
Attributable to:			
Owners of the parent company		**1,842,597**	1,939,745
Non-controlling interests		**(38,521)**	–
		1,804,076	1,939,745

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property and equipment		**3,874,370**	3,556,163
Investment properties		**915,226**	830,611
Goodwill		**4,030,771**	4,014,981
Other intangible assets		**108,660**	116,157
Other investments	11	**145,800**	127,710
Lease prepayments		**403,171**	387,784
Deferred tax assets		**66,663**	39,513
Designated loans	12	**3,600,000**	3,648,000
Total non-current assets		**13,144,661**	12,720,919
CURRENT ASSETS			
Inventories		**9,625,044**	8,084,971
Trade and bills receivables	13	**199,598**	206,102
Prepayments, deposits and other receivables		**3,728,279**	2,446,051
Due from related parties		**169,390**	251,290
Derivative component of convertible bonds		**–**	7,349
Pledged deposits		**4,388,998**	6,268,130
Cash and cash equivalents		**5,971,498**	6,232,450
Total current assets		**24,082,807**	23,496,343
CURRENT LIABILITIES			
Interest-bearing bank loans		**–**	100,000
Trade and bills payables	14	**17,140,383**	16,899,683
Customers' deposits, other payables and accruals		**1,523,315**	1,819,999
Due to related parties		**–**	97,826
Convertible bonds	15	**2,111,610**	129,976
Tax payable		**440,905**	509,374
Total current liabilities		**21,216,213**	19,556,858
NET CURRENT ASSETS		**2,866,594**	3,939,485
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,011,255**	16,660,404
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**92,961**	111,148
Convertible bonds	15	**–**	1,814,069
Total non-current liabilities		**92,961**	1,925,217
Net assets		**15,918,294**	14,735,187
EQUITY			
Equity attributable to owners of the parent company			
Issued capital		**421,521**	417,666
Reserves		**15,527,242**	13,735,246
Proposed final dividend	10	**–**	582,275
		15,948,763	14,735,187
Non-controlling interests		**(30,469)**	–
Total equity		**15,918,294**	14,735,187

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 (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, 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 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
IFRIC 14 Amendment	Amendment to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IAS 24 (Revised), and amendments to IFRS 3, IAS 1 and IAS 27 included in *Improvements to IFRSs 2010*, 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) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 3 *Business Combinations*: The amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- IAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has one reportable operating segment which is the 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, unallocated income, finance costs, the fair value loss on the derivative component of convertible bonds, gain on redemption of the Old 2014 Convertible Bonds and other expenses incurred for corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, other investments, the derivative component of convertible bonds and cash and cash equivalents as these assets are managed on a group basis.

4. **OPERATING SEGMENT INFORMATION (Continued)**

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

	2011	2010
	RMB'000	*RMB'000*
Segment revenue		
Sales to external customers	**59,820,789**	50,910,145
Segment results	**2,629,103**	2,862,919
Reconciliation:		
Bank interest income	**223,593**	164,076
Unallocated income	**4,872**	15,466
Loss on the derivative component of convertible bonds	**(7,349)**	(93,340)
Gain on redemption of the Old 2014 Convertible Bonds	**–**	202,578
Finance costs	**(241,772)**	(441,818)
Corporate and other unallocated expenses	**(133,947)**	(200,349)
Profit before tax	**2,474,500**	2,509,532
Segment assets	**26,654,509**	23,542,110
Reconciliation:		
Corporate and other unallocated assets	**10,572,959**	12,675,152
Total assets	**37,227,468**	36,217,262
Segment liabilities	**18,663,698**	18,817,508
Reconciliation:		
Corporate and other unallocated liabilities	**2,645,476**	2,664,567
Total liabilities	**21,309,174**	21,482,075
Other segment information		
Depreciation and amortisation	**406,439**	341,585
Capital expenditure*	**869,476**	507,287

* Capital expenditure consists of additions to property and equipment and intangible assets including those arising from the acquisition of subsidiaries.

Geographical information

(a) Revenue from external customers

	2011	2010
	RMB'000	*RMB'000*
Mainland China	**59,820,789**	50,910,145

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

(b) Non-current assets

	2011	2010
	RMB'000	*RMB'000*
Mainland China	**9,317,070**	8,896,662
Hong Kong	**15,128**	9,034
	9,332,198	8,905,696

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 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 gain is as follows:

	Notes	**2011** *RMB'000*	2010 *RMB'000*
Revenue			
Sale of electrical appliances and consumer electronic products		**59,820,789**	50,910,145
Other income			
Income from suppliers		**2,079,355**	2,166,652
Management and purchasing service fees:			
– from the Non-listed GOME Group	*(i)*	**250,000**	250,000
– from Dazhong Appliances	*(ii)*	**104,547**	101,577
Management fees for air-conditioner installation		**134,488**	137,676
Gross rental income		**228,635**	189,438
Government grants	*(iii)*	**166,027**	139,605
Other service fee income		**63,270**	106,221
Compensation income		**13,764**	26,193
Other income from telecommunication service providers		**117,136**	58,671
Others		**119,210**	63,017
		3,276,432	3,239,050
Gain			
Fair value gain on investment properties		**25,650**	–
Gain on redemption of the Old 2014 Convertible Bonds	*15(i)*	**–**	202,578
		25,650	202,578
		3,302,082	3,441,628

Notes:

(i) Beijing Eagle Investment Co., Ltd., Beijing Pengrun Property Co., Ltd. ("Beijing Pengrun Property"), Beijing Gome Electrical Appliance Co., Ltd. ("Beijing Gome"), Gome Electrical Appliance Retail Co., Ltd. and its subsidiaries 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	**2011** **RMB'000**	2010 RMB'000
Cost of inventories sold		**52,264,259**	44,991,355
Depreciation		**397,217**	332,543
Amortisation of intangible assets	*(i)*	**9,222**	9,042
Loss on disposal of items of property and equipment		**498**	16,287
Minimum lease payments under operating leases in respect of land and buildings		**2,730,814**	2,242,618
Gross rental income	*5*	**(228,635)**	(189,438)
Fair value loss on transfer of owner-occupied properties to investment properties		**9,756**	–
Fair value (gain)/loss on investment properties		**(25,650)**	8,488
Management and purchasing service fees from Dazhong Appliances	*5*	**(104,547)**	(101,577)
Interest income from Beijing Zhansheng	*7*	**(176,698)**	(174,960)
Loss on the derivative component of convertible bonds	*15(i)*	**7,349**	93,340
Gain on redemption of the Old 2014 Convertible Bonds	*15(i)*	**–**	(202,578)
Fair value loss on Hong Kong listed investments		**–**	29
Foreign exchange differences, net		**31,295**	35,086
Auditors' remuneration			
– audit services		**8,400**	7,900
– non-audit services		**1,680**	3,100
Staff costs excluding directors' remuneration			
Wages, salaries and bonuses		**1,858,004**	1,387,039
Pension scheme contributions*		**385,947**	256,043
Social welfare and other costs		**16,337**	17,507
Equity-settled share option expense		**54,140**	67,368
		2,314,428	1,727,957

Note:

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

* At 31 December 2011, the Group has no forfeited contribution available to reduce its contributions to the pension schemes in future years (2010: Nil).

7. FINANCE (COSTS)/INCOME

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

	Notes	**2011** *RMB'000*	2010 *RMB'000*
Finance costs:			
Interest on bank loans wholly repayable within five years		**(3,491)**	(11,266)
Interest expenses on convertible bonds	*15*	**(238,281)**	(430,552)
		(241,772)	(441,818)
Finance income:			
Bank interest income		**223,593**	164,076
Other interest income	*(i)*	**176,698**	174,960
		400,291	339,036

Note:

(i) Other interest income represented interest income from the RMB3,600 million designated loan (note 12) to Beijing Zhansheng through the Beijing Branch of Industrial Bank Co., Ltd. The loan bears interest ranging from 4.86% to 5.90% (2010: 4.86%) 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:

	2011 *RMB'000*	2010 *RMB'000*
Current income tax – PRC	**718,676**	555,210
Deferred income tax	**(45,522)**	(7,332)
Total tax charge for the year	**673,154**	547,878

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

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Under the relevant PRC income tax law, except for certain preferential treatments available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2010: 25%) on their respective taxable income. During the year, 36 entities (2010: 31 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 2011 and 2010, as the Group had no assessable profits arising in Hong Kong for the respective years.

8. INCOME TAX EXPENSE (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:

			2011		
	Hong Kong		**PRC**		**Total**
	RMB'000	*%*	***RMB'000***	*%*	***RMB'000***
Profit/(loss) before tax	**(363,389)**		**2,837,889**		**2,474,500**
Income tax at the statutory tax rate	**(59,959)**	**16.5**	**709,472**	**25.0**	**649,513**
Tax effect of preferential tax rates	**–**		**(182,583)**		**(182,583)**
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**–**		**14,640**		**14,640**
Income not subject to tax	**(2,823)**		**(20,050)**		**(22,873)**
Expense not deductible for tax	**53,011**		**19,335**		**72,346**
Tax losses utilised from previous years	**–**		**(43,870)**		**(43,870)**
Tax losses not recognised	**9,771**		**176,210**		**185,981**
Tax charge at the Group's effective rate	**–**		**673,154**		**673,154**

			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

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 2011, 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 (2010: Nil). In the opinion of the directors of the Company (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 COMPANY

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent company, and the weighted average number of ordinary shares of 16,843,258,000 (2010: 15,502,678,000) in issue during the year.

The calculation of the diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent company, adjusted to reflect the interest on the convertible bonds, fair value gain or loss on the derivative component of the convertible bonds and gain on redemption of the convertible bonds. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2011	2010
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent company used in the basic earnings per share calculation	**1,839,867**	1,961,654
Interest on the Old 2014 Convertible Bonds	**–**	53,686
Fair value loss on the derivative component of the Old 2014 Convertible Bonds	**–**	93,340
Gain on redemption of the Old 2014 Convertible Bonds	**–**	(202,578)
Profit attributable to ordinary equity holders of the parent company as adjusted for the effect of convertible bonds	**1,839,867**	1,906,102

		Number of shares	
		2011	2010
	Note	***'000***	*'000*
Shares			
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation		**16,843,258**	15,502,678
Effect of dilution – weighted average number of ordinary shares:			
Warrants		**2,527**	34,626
Share options		**67,409**	51,125
Convertible bonds	*(i)*	**–**	260,715
		16,913,194	15,849,144

Note:

(i) 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 the diluted earnings per share. Only the effect of the Old 2014 Convertible Bonds was included in the calculation of the diluted earnings per share for the year ended 31 December 2010. The Old 2014 Convertible Bonds that were redeemed during the year ended 31 December 2010 were included in the calculation of the diluted earnings per share only for the portion of the period during which they are outstanding.

The Old 2014 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 2011 and were therefore not included in the calculation of diluted earnings per share.

10. DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Interim: HK$2.7 cents (equivalent to RMB2.2 fen) per ordinary share (2010: Nil)	**382,483**	–
Proposed final: HK$4.1 cents (equivalent to RMB3.5 fen) per ordinary share	**–**	582,275
	382,483	582,275

11. OTHER INVESTMENTS

	2011	2010
	RMB'000	*RMB'000*
PRC equity investments, at fair value	**145,800**	127,710

The balance as at 31 December 2011 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 company established in the PRC and listed on the Shanghai Stock Exchange. The Group classified these investments as available-for-sale financial assets at 31 December 2011 and 2010. 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.

Of the seven directors of Sanlian, three 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 consider that the Group has no absolute right to determine the composition of the board of directors of Sanlian or appoint directors to it and thus the Group does not have control or significant influence over Sanlian.

As at 31 December 2011, the fair value of these investments was based on quoted market prices of the listed shares, which was RMB5.4 per share. As at 31 December 2010, the fair value of these investments is determined by the Directors, based on various sources of information and assumptions, at RMB4.73 per share.

During the year, the gross gain in respect of the Group's other investments recognised in other comprehensive income amounted to RMB18,090,000 (2010: loss of RMB25,650,000). The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

During the year ended 31 December 2011, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to RMB5,297,000 (2010: RMB2,989,000).

12. DESIGNATED LOANS

The designated loan to Beijing Zhansheng

The designated loan of RMB3,600 million as at 31 December 2011 (31 December 2010: 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 with a maturity date on 14 December 2011 with an interest rate of 4.86% per annum. On 14 December 2011, the designated loan was further extended for a period from 15 December 2011 to 15 December 2012 with an interest rate of 5.90% per annum to reflect the current market interest rate.

The designated loan is secured by (i) the pledge of the entire registered 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 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 approval of the consolidated financial statements, the Board is considering to exercise the Purchase Option on Dazhong in the near future.

The designated loan to Huihai

The designated loan (the "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") through the Beijing branch of China Bohai Bank Co., Ltd. The Huihai Loan was 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. The Huihai Loan had a term of five years and bore interest at a rate of 4.86% per annum, which was determined by reference to the interest rate published by the People's Bank of China. In January 2011, the Group acquired Huihai which became a subsidiary of the Company and this intra-group designated loan has been eliminated on consolidation.

13. 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:

	2011	2010
	RMB'000	*RMB'000*
Outstanding balances, aged:		
Within 3 months	**195,274**	204,240
3 to 6 months	**1,736**	1,489
6 months to 1 year	**2,588**	284
Over 1 year	**–**	89
	199,598	206,102

The balance at 31 December 2011 included the trade receivables from Dazhong Appliances of RMB22,550,000 (2010: RMB118,223,000). During the year, the Group sold electrical appliances and consumer electronic products to Dazhong Appliances amounting to RMB2,220,055,000 (2010: RMB1,430,654,000).

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

	2011	2010
	RMB'000	*RMB'000*
Neither past due nor impaired	**149,081**	197,356
Less than 3 months past due	**46,193**	6,884
Over 3 months past due	**4,324**	1,862
	199,598	206,102

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

Receivables that were past due but not impaired relate to mainly corporate customers which have long business relationship with the Group. 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 and non-interest-bearing.

14. TRADE AND BILLS PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**7,177,734**	5,757,564
Bills payable	**9,962,649**	11,142,119
	17,140,383	16,899,683

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:

	2011	2010
	RMB'000	*RMB'000*
Within 3 months	**12,228,210**	8,163,552
3 to 6 months	**4,631,032**	8,443,194
Over 6 months	**281,141**	292,937
	17,140,383	16,899,683

The Group's bills payable is 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 executed 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.

15. CONVERTIBLE BONDS

		2011	2010
	Notes	***RMB'000***	*RMB'000*
Liability components:			
Old 2014 Convertible Bonds	*(i)*	**137,567**	129,976
New 2014 Convertible Bonds	*(ii)*	**1,974,043**	1,814,069
		2,111,610	1,944,045
Classified as current liabilities		**(2,111,610)**	(129,976)
Non-current liabilities		**–**	1,814,069

(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.

15. **CONVERTIBLE BONDS (Continued)**

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

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 the 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 2010 and 2011. No adjustment was made to the conversion price during the year ended 31 December 2011.

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 amount of redemption gain which related to the liability component amounting to RMB202,578,000 was recognised in profit or loss.

As at 31 December 2011, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB149,400,000 remained outstanding.

The movements of the liability component, derivative component and equity component of the Old 2014 Convertible Bonds for 2010 and 2011 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 2010	2,281,046	(100,689)	970,813	3,151,170
Interest expenses	53,686	–	–	53,686
Fair value adjustment	–	93,340	–	93,340
Repurchases of bonds	(2,204,756)	–	(683,330)	(2,888,086)
At 31 December 2010 and 1 January 2011	**129,976**	**(7,349)**	**287,483**	**410,110**
Interest expenses	**7,591**	**–**	**–**	**7,591**
Fair value adjustment	**–**	**7,349**	**–**	**7,349**
At 31 December 2011	**137,567**	**–**	**287,483**	**425,050**

The fair values of the derivative component were determined based on the valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professional valuers, using the applicable option pricing model.

15. **CONVERTIBLE BONDS (Continued)**

(ii) 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.

The conversion price of the New 2014 Convertible Bonds was adjusted from HK$2.8380 per share to HK$2.79 per share (at the fixed rate of HK$1.1351 to RMB1.00) effective from 11 June 2011 (Hong Kong time) to reflect the effect of 2010 final dividends approved by the shareholders of the Company on 10 June 2011 of HK$4.1 cents (equivalent to RMB3.5 fen) per share and the change was announced on 21 June 2011.

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.

At 31 December 2011, the New 2014 Convertible Bonds with an aggregate principal amount of RMB2,357.2 million remained outstanding.

15. CONVERTIBLE BONDS (Continued)

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

The movements of the liability component and equity component of the New 2014 Convertible Bonds for 2010 and 2011 are as follows:

	Liability component of convertible bonds *RMB'000*	**Equity component of convertible bonds** *RMB'000*	**Total** *RMB'000*
At 1 January 2010	1,672,176	688,021	2,360,197
Interest expenses	212,609	–	212,609
Interest paid	(70,716)	–	(70,716)
At 31 December 2010 and 1 January 2011	**1,814,069**	**688,021**	**2,502,090**
Interest expenses	**230,690**	**–**	**230,690**
Interest paid	**(70,716)**	**–**	**(70,716)**
At 31 December 2011	**1,974,043**	**688,021**	**2,662,064**

(iii) 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.

The Company should on 3 August 2016, the bond maturity date, redeem in USD all the bonds then outstanding at an amount equivalent to USD 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.

15. CONVERTIBLE BONDS (Continued)

(iii) 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 would 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 2016 Convertible Bonds were converted 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 movements of the liability component and equity component of the 2016 Convertible Bonds for 2010 are as follows:

	Liability component of convertible bonds *RMB'000*	Equity component of convertible bonds *RMB'000*	Total *RMB'000*
At 1 January 2010	**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	**–**	**–**	**–**

16. EVENTS AFTER THE REPORTING PERIOD

Share options

Subsequent to 31 December 2011, the subscription rights attaching to 1,500,000 share options were exercised at the subscription price of HK$1.9 per share, resulting in the issue of 1,500,000 shares.

New lease agreements

On 6 January 2012, the Group entered into: (i) a new lease agreement with respect to the Group's use of additional properties with Beijing Pengrun Property, pursuant to which the annual rent payable by the Group under the agreement will be a sum of approximately RMB1,197,000 (equivalent to approximately HK$1,474,300); and (ii) a lease agreement with respect to the continuous usage of a property with Beijing Gome, pursuant to which the annual rent payable by the Group under the agreement will be a sum of approximately RMB14,454,000 (equivalent to approximately HK$17,802,700) for the year ending 31 December 2012. The transactions constitute continuing connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Save as disclosed above, the Group did not have any significant events taking place subsequent to 31 December 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the reporting period, the Group relentlessly focused on the implementation of its five-year plan, adhering to the strategic guidelines of "leading in 2011 through maximum efforts and minimum waste" laid out at the beginning of the year. In the current macroeconomic environment, with the slowing down of the global economic recovery and complications in the domestic market, we have effectively implemented strategic measures and overcome various challenges. We have achieved satisfactory results in areas such as retail network coverage, the transformation of our business model, the 3C business (including digital devices such as computers, cameras and communications equipment), the build out of information systems and e-commerce. All these contributed to a strong platform for the Group's development.

The Group recorded revenue of approximately RMB59,821 million over the reporting period, up 17.50% from approximately RMB50,910 million recorded in the corresponding period of the previous year. Profit attributable to owners of the parent Company was approximately RMB1,840 million, as compared to RMB1,962 million in the corresponding period of the previous year.

As at the end of the reporting period, the Group's retail network has increased from 826 at the end of 2010 to 1,079 stores following the opening of 282 new stores and closure of 29 underperforming stores. Through implementing strategies including remodelling of existing stores, optimization of product mix and operation by merchandise, the operational efficiency of individual stores was further enhanced, recording a 3.06% growth in sales revenue from comparable stores.

During 2011, the Group swiftly and effectively executed the build out of its information management systems. The ERP Leader Navigation Project ("ERP Project") was successfully installed in certain pilot sites on 1 July 2011, and fully launched nationwide subsequently on 1 November 2011. It has since been efficiently utilized by the Group. The ERP Project has been implemented with the joint efforts of leaders in the IT industry such as SAP and Hewlett-Packard, delivering a pioneering system in the global retail industry, equipped with the most advanced information system in the country. Through the creation of an information-sharing platform, facilitating exchange of information between retailers and suppliers, not only will it support the realization of the Group's business model transformation, but will also enhance the responsiveness of the Group towards the consumer market. This will enable the Group to provide customers with better quality products at a lower price so as to elevate customer shopping experience. By following international and advanced operational models, the implementation of seamless connection among retailers, consumers and suppliers is accelerated. This enhanced the efficiency of the whole supply and demand chain, reducing the costs and benefit consumers and global suppliers. As a result, the Group will be able to maintain its leadership position in the home appliances retail market in China.

The various measures formulated by the Group at the beginning of the year were effectively executed. In addition to the store and logistic network expansion, remodelling of storefronts and build out of the IT system, other key measures include: (1) exploring second-tier markets, rapidly expanding the store network in these markets, continuously optimizing the supply and distribution chains in order to attain absolute competitive advantages; (2) strengthening e-commerce, enhancing the Group's multi-channel sales, and consolidating the Group's market-leading position; (3) strengthening of the 3C business, strenuously promoting 3C accessories and cooperation between telecommunication operators, and dramatically increasing the proportion of 3C products sales to our total revenue; (4) continuing the implementation of differentiated operations, such as ODM and OEM supplier systems, realizing profit differentiation through product differentiation, and enhancing the overall profitability of the Group.

FINANCIAL REVIEW

Revenue

During the reporting period, the Group's revenue was approximately RMB59,821 million, up approximately 17.50% from RMB50,910 million in 2010. The Group's weighted average sales area was approximately 3,302,000 sq.m.. The Group's revenue per sq.m. was approximately RMB18,117, relatively the same as compared to RMB18,621 in the corresponding period of 2010.

Aggregate sales of 661 comparable stores recorded a revenue of approximately RMB46,957 million this year, up 3.06% from RMB45,564 million in the corresponding period of 2010. 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 RMB27,120 million, accounting for 45.34% of the total revenue.

Cost of sales and gross profit

Cost of sales of the Group was approximately RMB52,264 million in the reporting period, accounting for 87.37% of the total revenue, lower than the proportion of 88.37% in the corresponding period of 2010. Gross profit was approximately RMB7,557 million, up approximately 27.67% from RMB5,919 million in the previous year. The gross profit margin was 12.63%, increased by 1 percentage point as compared to 11.63% in the previous year. The management believes that the sustainable growth in gross profit margin reflected the successful implementation of the Group's strategy in respect of product differentiation, product management and product pricing.

Other income and gain

During the reporting period, the Group recorded other income and gain of approximately RMB3,302 million, representing a decrease of 4.07% over that of RMB3,442 million in 2010. The percentage of income from suppliers over sales revenue was 3.48%, slightly lower than 4.26% for the previous year, which was mainly due to the continuing effort in the standardization of contract terms between the Group and the suppliers in the reporting period, which caused more income to be directly reflected in gross profit.

Summary of other income and gain:

	2011	2010
As a percentage of sales revenue:		
Income from suppliers	**3.48%**	4.26%
Management and purchasing service fees from the Non-listed GOME Group	**0.42%**	0.49%
Management and purchasing service fees from Dazhong Appliances	**0.17%**	0.20%
Management fees for air-conditioner installation	**0.22%**	0.27%
Gross rental income	**0.38%**	0.37%
Government grants	**0.28%**	0.27%
Other income from telecommunication service providers	**0.20%**	0.16%
Others	**0.37%**	0.74%
Total	**5.52%**	6.76%

Consolidated gross profit margin

During the reporting period, the Group's consolidated gross profit margin reached 18.15%, largely the same as compared to 18.39% for the previous year. The Group will continue to improve its consolidated gross profit margin by product differentiation operations.

Operating expenses

During the reporting period, the Group's total operating expenses (including selling and distribution costs, administrative expenses and other expenses) were approximately RMB8,535 million, accounting for 14.27% of total sales revenue, up 1.20 percentage points as compared to 13.07% for the previous year.

Summary of operating expenses:

	2011	2010
As a percentage of sales revenue:		
Selling and distribution costs	**11.54%**	10.05%
Administrative expenses	**2.04%**	2.29%
Other expenses	**0.69%**	0.73%
Total	**14.27%**	13.07%

Selling and distribution costs

During the reporting period, as a result of store network expansion and development of the e-commerce platform, the Group's total selling and distribution costs increased to approximately RMB6,904 million. The percentage over revenue was 11.54%, up 1.49 percentage points as compared to 10.05% in the corresponding period of 2010.

Administrative expenses

With the continuous expansion of the Group's scale of operations and the need to support its enhanced management, the administrative expenses were slightly increased. During the reporting period, the Group's administrative expenses were approximately RMB1,219 million, higher than that of RMB1,165 million in the corresponding period of 2010 by 4.64%. The percentage over revenue was 2.04%, reduced by 0.25 percentage points as compared to 2.29% in the corresponding period of 2010. The Group has always been strengthening its control over administrative expenses in order to maintain its administrative expenses at a relatively low level in the industry.

Other expenses

Other expenses of the Group mainly comprised, among others, business tax and bank charges, increased from RMB375 million in 2010 to approximately RMB413 million during the reporting period. The percentage over sales revenue was 0.69%, slightly decreased as compared to 0.73% in 2010.

Profit from operating activities

As a result of the increasing operating expenses, the Group's profit from operating activities decreased by 14.15% during the reporting period from RMB2,706 million in 2010 to approximately RMB2,323 million this year.

Net finance income/loss

During the reporting period, finance costs were reduced as a result of a decrease in the interest expenses on the convertible bonds. The Group's net finance income was approximately RMB159 million, as compared to a net finance loss of RMB103 million in 2010.

Profit before tax

During the reporting period, the Group's profit before tax was approximately RMB2,475 million, accounting for approximately 4.14% of the sales revenue, representing a slight decrease of 1.39% as compared with RMB2,510 million in 2010.

Income tax expense

During the reporting period, the Group's income tax expense was increased from RMB548 million in 2010 to approximately RMB673 million. 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 RMB1,840 million, representing a decrease of 6.22% as compared with RMB1,962 million for the previous year. Net profit margin was 3.08%, decreased by 0.77 percentage points as compared to 3.85% for the previous year. Basic earnings per share were RMB0.109, representing a decline of 14.17% as compared with RMB0.127 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 RMB5,971 million, slightly decreased by 4.19% as compared with RMB6,232 million as at the end of 2010.

Inventories

As at the end of the reporting period, the Group's inventories amounted to approximately RMB9,625 million, up 19.05% as compared to RMB8,085 million at the end of 2010. The inventory turnover period slightly increased by 3 days from 59 days in 2010 to 62 days, which was mainly attributable to the expansion of second-tier markets and the longer logistics supply chain.

Prepayments, deposits and other receivables

As at the end of the reporting period, prepayments, deposits and other receivables of the Group amounted to approximately RMB3,728 million, up 52.41% from RMB2,446 million as at the end of 2010. The main reason for the increase was that the Group capitalized on state policy and increased 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 RMB17,140 million, up 1.42% from RMB16,900 million as at the end of 2010. Trade and bills payables turnover days were approximately 119 days, decreased by 13 days as compared to 132 days for the previous year.

Capital expenditure

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB861 million, representing a 55.14% increase as compared with approximately RMB555 million in 2010. The increase was mainly due to additional expenses arising from opening new stores, the remodelling of stores and the purchase of hardware equipment relating to ERP Project by the Group during the year.

Cash flows

During the reporting period, the Group's net cash flows from operating activities amounted to approximately RMB383 million, compared with net cash flows of RMB3,873 million in 2010.

Net cash flows used in investing activities amounted to approximately RMB736 million, representing an increase of 33.09% as compared with RMB553 million in 2010, as the Group increased the capital expenditure for store network expansion, store transformation and ERP Project during the year.

Net cash flows from financing activities amounted to approximately RMB107 million, while net cash used in 2010 was RMB3,102 million. The amount used in 2010 mainly represented the cash paid for redemption of convertible bonds.

Dividend and dividend policy

The Board does not recommend the payment of a final dividend so as to preserve capital for funding needs of the Group. During the year, an interim dividend of HK$2.7 cents (equivalent to RMB2.2 fen) per share was paid and the total dividend for the year was HK$2.7 cents (equivalent to RMB2.2 fen) per share.

Currently, the Board anticipates 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 Board's full discretion, after taking into account, among other considerations, business environment and availability of investment opportunities.

Contingent liabilities and capital commitment

Except for the guarantees of approximately RMB476 million given to banks in connection with bill facilities granted in favour of Dazhong Appliances, which was not provided in the statement, there were no material contingent liabilities as at the end of the reporting period. However, the Group had capital commitments 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. However, as the Renminbi has been appreciating against HK dollars and US dollars, the Group's short-term HK dollar and US dollar 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 poses a significant potential financial impact on the Group.

The management 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 2011, the total borrowings of the Group, being convertible bonds, amounted to about RMB2,112 million. Pursuant to the bond subscription agreement, it is redeemable at the option of the bondholders in 2012. The Group's financing activities continue to be supported by its bankers.

As at 31 December 2011, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to RMB2,112 million over total equity amounting to RMB15,918 million, slightly decreased to 13.27% from 13.82% as at 31 December 2010.

Charge on group assets

As at the end of 2011, the Group's bank acceptance credit and bills payable were secured by the Group's time deposits amounting to RMB4,389 million and certain inventories with a carrying value of RMB540 million and certain buildings and self-owned properties of the Group with a carrying value of RMB2,241 million. The Group's bills payable amounted to RMB9,963 million.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2011, the Group employed a total of 59,624 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

In order to better prepare for the opportunities and challenges in 2012, the Group has formulated strategic plans which revolve around core targets such as maintaining sustainable growth, controlling costs, and enhancing profitability, emphasizing the strategic priorities of expansion in scale and refined operations. We will also focus on multi-brand development, strengthening the store network, continuously steering of the business model transformation and innovation, and will put more effort on the rapid development of our 3C business. We will continue to build and optimize our information systems. Capitalizing on the highly efficient IT platform, the Group will enhance our centralized and standardized management capabilities, continue to improve in our supply chain, merchandise capability as well as logistics and after-sales services, in order to enhance our operational efficiency and core competitiveness, secure stable and sustainable growth of the Group's results and continue to perform our leading role in the development of the home appliance retail industry.

(1) Enhancing Same-Store Growth Through Network Expansion

In 2012, the Group will adopt an operational strategy which emphasizes both store network expansion as well as same-store growth enhancement. In the first-tier cities, we continue to optimize the store network and enhance the operation quality of individual stores and the same-store growth by various measures such as the transformation of existing stores, optimization of product mix and self-driven marketing. At the same time, we accelerate the store network development in prime locations in the first-tier markets as well as the second-tier markets. These will further enhance the competitive edge of GOME in network coverage when compared with competitors. In 2012, the Group will also emphasize multi-brand promotion. By utilizing well-known brands currently owned or used by the Group such as GOME, China Paradise and Dazhong, the Group will execute multi-brand strategy in areas with high market potential, allowing the Group to capitalize on our advantages of multiple brands to strengthen our leading position.

Additionally, the Group will execute product management to enrich our product categories and implement membership programs to enhance customer loyalty. These measures will ultimately increase the store performance and profitability.

(2) Increase Efficiency through Operational Enhancement

2012 will be another year for the Group to transform from operation by location and suppliers to operation by merchandise and customers. Leveraging on the extensive store network, the support and supervisory system, the Group strives for a better connection with suppliers and consumers to conduct a real-time analysis and assessment on the performance of individual stores, products and staff members. These will enhance the synergistic benefits of the supply chain and enhance the yield of the products and customers. We aim at rationalizing our internal operation and improving the coordination with different sectors of the industry to enhance our operational efficiency and to reduce operating costs.

The Group will also spare no efforts in achieving a consistent increase in store efficiency through optimization of store area and personnel structure as well as refining the budget with respect to individual stores, products and persons. Through the store assessment system which focuses on four key areas including store area, personnel, rental and sales, the Group will be able to develop the best model to standardize the allocation of store resources. The Group will also adopt sales per capita as a yardstick to develop high-performing bench marks for stores in order to increase overall store efficiency and human resources efficiency.

In addition, the Group will reinforce a coordinated management of the supply chain and combine centralized and decentralized procurement to improve its business model. In terms of product management, the differentiated product operation remains at the core development strategy of the Group. GOME will continue to focus on enriching ODM and OEM products to increase its profits.

(3) Integration of E-commerce

With the immense business opportunities and challenges brought by e-commerce, the Group will start to position e-commerce as the key area of development. At this stage, we will continue to devote more resources to e-commerce, fully utilize the advantages delivered by the "B2C + physical stores" e-commerce integration and implement the dual-brand strategy based on the GOME online shopping mall and the COO8 shopping website. At the same time, the Group will continue to strengthen the cooperation with other e-commence platforms. With our own dual platforms, we will actively increase our market share in the e-commerce segment.

(4) Strengthening 3C Business

In 2012, the Group will continue to strengthen the management and operation of various aspects such as the sale of 3C accessories, telecommunication business, product management capability and store operating capabilities.

The Group has the most comprehensive retail network and the most extensive customer base in the industry. In 2011, the Group fostered new strategic alliances with China Telecom and China Unicom nationwide which enabled the Group to absorb more 3G smartphone users and created a new income driver for the Group. We believe in 2012, by effectively leveraging on our own retail network coverage as well as various promotional measures and versatile promotional packages, our customer base will expand and profitability from 3C business will be strengthened.

Also, the Group will continue to transform from operation by suppliers to operation by merchandise, to optimize the product mix carried by our stores. Such measures will certainly enhance the attractiveness of our stores to customers and facilitate the promotion of 3C differentiated products, thus increasing the sales from 3C products and hence our overall profitability.

(5) Strengthening the Infrastructures

The sustainability of the Group relies on the enhancement of our core competitiveness through infrastructures establishment such as the integration and enhancement of IT systems, logistics and after-sales services.

In 2011, we successfully launched ERP system. On logistics front, the new ERP system enables seamless integration of the logistics and distribution centers, boosting supply chain efficiency while reducing costs. For after-sales services, we will continue to upgrade the E-fast service centers, expand self-owned service network and enhance extended warranty programs to improve customers' overall shopping experiences. These efforts allow the Group to increase customer satisfaction, and hence our brand reputation and image.

In 2012, with the new ERP system, the Group will improve its logistics development and after-sales service coverage. Other key focus areas are the effective resource sharing of online and offline business as well as the enhancement of operational efficiency and profitability through the construction and integration of our own effective support systems.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2011 save as the deviation disclosed below.

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 was appointed as a non-executive director and 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Upon specific enquiries made by the Company, the Company confirms that all Directors for the period under review have complied with the required standard set out in the Model Code throughout the period under review.

AUDIT COMMITTEE

The Audit Committee of the Company comprises Messrs. LEE Kong Wai, Conway, SZE Tsai Ping, Michael, CHAN Yuk Sang, Thomas Joseph MANNING and NG Wai Hung 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 2011 and the auditors' report thereon and submitted its reports to the Board.

PURCHASE, SALE AND REDEMPTION OF SHARES

Pursuant to the terms of the warrants issued on 1 March 2006 by the Company entitling the holders to subscribe up to an aggregate amount of US$25,000,000 for new Shares (the "Warrants"), an aggregate of 108,790,252 Shares have been issued to the holder of the Warrants on 24 January 2011 by the Company at the exercise price of US$0.2298 per Share. After the exercise of the Warrants noted above, the Company does not have any outstanding Warrants.

During the year ended 31 December 2011, the Company had repurchased its own shares on the Stock Exchange, details of witch are as follows:

Month/Year	Number of shares repurchased	Highest price	Lowest price	Aggregate consideration (excluding expenses)
		HK$	*HK$*	*HK$*
October 2011	8,792,000 share of HK$0.025 each in the share capital of the Company	2.04 per Share	1.95 per Share	17,831,670
	8,792,000 Shares			17,831,670

The Shares repurchased during the year ended 31 December 2011 were cancelled upon repurchase and accordingly, the issued share capital of the Company was diminished by the nominal value thereof.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

ANNUAL GENERAL MEETING

A notice convening the annual general meeting of the Company will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

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 2011 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, 27 March 2012

As at the date of this announcement, the Board comprises Mr. Ng Kin Wah and Mr. Zou Xiao Chun as executive directors; Mr. Zhang Da Zhong, 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, Mr. Thomas Joseph Manning, Mr. Lee Kong Wai, Conway and Mr. Ng Wai Hung as independent non-executive directors.

* *For identification purpose only*