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 2016

2016 FINANCIAL HIGHLIGHTS

- During the reporting period, sales revenue was approximately RMB76,695 million, increased by 18.73% as compared with RMB64,595 million in the previous year
- Consolidated gross profit margin was approximately 16.09%, as compared with 17.81% in the previous year
- Profit attributable to owners of the parent was approximately RMB325 million, as compared with RMB1,208 million in the previous year
- Basic earnings per share were RMB1.6 fen, as compared with RMB7.1 fen in the previous year
- The Board proposed a final dividend of HK0.70 cent per ordinary share

The board of directors (the "Board") of GOME Electrical Appliances Holding Limited (the "Company") announces the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	6	**76,695,025**	64,595,127
Cost of sales	7	**(66,318,216)**	(55,082,038)
Gross profit		**10,376,809**	9,513,089
Other income and gains	6	**1,964,324**	1,994,026
Selling and distribution expenses		**(9,448,122)**	(7,791,964)
Administrative expenses		**(1,979,752)**	(1,580,572)
Other expenses		**(751,945)**	(768,601)
Profit before finance (costs)/income and tax		**161,314**	1,365,978
Finance costs	8	**(234,615)**	(43,226)
Finance income	8	**231,794**	253,999
PROFIT BEFORE TAX	7	**158,493**	1,576,751
Income tax expense	9	**(212,688)**	(640,257)
(LOSS)/PROFIT FOR THE YEAR		**(54,195)**	936,494
Attributable to:			
Owners of the parent		**325,139**	1,207,963
Non-controlling interests		**(379,334)**	(271,469)
		(54,195)	936,494
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
– Basic		**RMB1.6 fen**	RMB7.1 fen
– Diluted		**RMB1.6 fen**	RMB7.1 fen

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2016

	Note	**2016** *RMB'000*	2015 *RMB'000*
(LOSS)/PROFIT FOR THE YEAR		**(54,195)**	936,494
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of other investments	*12*	**20,322**	212,992
Exchange differences on translation of foreign operations		**(1,035)**	3,292
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**19,287**	216,284
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**19,287**	216,284
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(34,908)**	1,152,778
Attributable to:			
Owners of the parent		**344,426**	1,424,247
Non-controlling interests		**(379,334)**	(271,469)
		(34,908)	1,152,778

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT ASSETS			
Property and equipment		**6,644,941**	4,393,245
Investment properties		**605,030**	599,832
Goodwill		**14,324,966**	7,145,117
Other intangible assets		**432,403**	242,363
Investments in associates		**17,000**	–
Other investments	*12*	**1,007,046**	595,013
Lease prepayments and deposits		**1,521,948**	1,423,833
Entrusted loans		**500,000**	–
Deferred tax assets		**56,251**	40,140
Total non-current assets		**25,109,585**	14,439,543
CURRENT ASSETS			
Inventories		**11,605,958**	10,176,004
Trade and bills receivables	*13*	**162,908**	189,439
Prepayments, deposits and other receivables		**4,731,201**	4,245,343
Due from related companies		**239,392**	189,694
Equity investments at fair value through profit or loss		**1,333,529**	1,029,142
Pledged deposits		**5,382,804**	3,880,903
Cash and cash equivalents		**13,236,752**	7,437,717
Total current assets		**36,692,544**	27,148,242
CURRENT LIABILITIES			
Trade and bills payables	*14*	**23,898,406**	19,290,931
Customers' deposits, other payables and accruals		**3,932,511**	2,591,986
Interest-bearing bank loans		**520,164**	971,512
Due to related companies		**661,427**	1,028,149
Tax payable		**1,051,761**	857,222
Total current liabilities		**30,064,269**	24,739,800

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
31 December 2016

	Note	**31 December 2016** ***RMB'000***	31 December 2015 *RMB'000*
NET CURRENT ASSETS		**6,628,275**	2,408,442
TOTAL ASSETS LESS CURRENT LIABILITIES		**31,737,860**	16,847,985
NON-CURRENT LIABILITIES			
Bonds payable	*15*	**8,849,485**	–
Deferred tax liabilities		**443,098**	159,623
Interest-bearing bank loans		**1,470,050**	–
Total non-current liabilities		**10,762,633**	159,623
Net assets		**20,975,227**	16,688,362
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**527,309**	423,268
Reserves		**21,958,850**	17,402,681
		22,486,159	17,825,949
Non-controlling interests		**(1,510,932)**	(1,137,587)
Total equity		**20,975,227**	16,688,362

Notes:

1. CORPORATE AND GROUP 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 operation and management of networks of retail stores of electrical appliances and consumer electronic products and online sale of electronic products in the People's Republic of China (the "PRC").

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"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain other investments which are classified as available-for-sale financial assets and equity investments at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

Except for the amendments to IFRS 10, IFRS 12 and IAS 28 (2011), amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 41, amendments to IAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

   (i) the materiality requirements in IAS 1;

   (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

   (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

   (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

   Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to IFRSs 2012-2014 Cycle* issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has one reportable operating segment which is the operation and management of network of retail stores of electrical appliances and consumer electronic products and online sale of electronic products in the PRC. The corporate office in Hong Kong does not earn revenues and is not classified as an operating segment.

Management monitors the results of the Group's operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that bank interest income, unallocated income, finance costs, loss on equity investments at fair value through profit or loss and corporate and other unallocated expenses are excluded from this measurement.

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

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

4. OPERATING SEGMENT INFORMATION (Continued)

	2016	2015
	RMB'000	*RMB'000*
Segment revenue		
Sales to external customers	**76,695,025**	64,595,127
Segment results	**256,877**	1,620,470
Reconciliation:		
Bank interest income	**231,794**	253,999
Unallocated income	**2,351**	2,730
Finance costs	**(234,615)**	(43,226)
Gain/(Loss) on equity investments at fair value through profit or loss	**10,207**	(206,758)
Corporate and other unallocated expenses	**(108,121)**	(50,464)
Profit before tax	**158,493**	1,576,751
Segment assets	**40,785,747**	28,604,870
Reconciliation:		
Corporate and other unallocated assets	**21,016,382**	12,982,915
Total assets	**61,802,129**	41,587,785
Segment liabilities	**28,492,344**	22,911,066
Reconciliation:		
Corporate and other unallocated liabilities	**12,334,558**	1,988,357
Total liabilities	**40,826,902**	24,899,423
Other segment information		
Depreciation and amortisation	**786,767**	526,395
Capital expenditure*	**1,016,813**	566,786

* Capital expenditure consists of additions to property and equipment and other intangible assets.

Geographical information

(a) Revenue from external customers

	2016	2015
	RMB'000	*RMB'000*
Mainland China	**76,695,025**	64,595,127

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

4. OPERATING SEGMENT INFORMATION (Continued)

(b) Non-current assets

	2016	2015
	RMB'000	*RMB'000*
Mainland China	**24,007,736**	13,770,013
Hong Kong	**38,552**	34,377
	24,046,288	13,804,390

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

5. BUSINESS COMBINATION

(a) On 31 March 2016, the Group acquired 100% of the equity interests of Artway Development Limited and its subsidiaries (the "Target Group"), an unlisted group principally engaged in the retail sale of electrical appliances and consumer electronic products under the trademark "GOME Electrical Appliances" and related operations mainly in cities other than the designated cities of the PRC in which the Group already operates. The purchase consideration for the acquisition was made in the form of HK$1 billion of cash, issuance of 5.5 billion shares of the Company at a market price of HK$1.12 per share at the date of the acquisition and issuance of 2.5 billion warrants of the Company at fair value of RMB227 million at the date of acquisition, which are exercisable into underlying shares of the Company at the initial exercise price of HK$2.15 per share.

The fair values of the identifiable assets and liabilities of the Target Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	RMB'000
Property and equipment	2,133,987
Other intangible assets	229,740
Lease prepayments and deposits	63,625
Deferred tax assets	12,446
Inventories	2,821,624
Trade and bills receivables	44,795
Prepayments, deposits and other receivables	777,857
Due from related companies	1,621,322
Pledged deposits	1,069,336
Cash and cash equivalents	1,529,258
Trade and bills payables	(5,222,804)
Customers' deposits, other payables and accruals	(795,048)
Interest-bearing bank loans	(3,610,801)
Due to related companies	(900,383)
Tax payable	(272,324)
Deferred tax liabilities	(297,577)
Total identifiable net liabilities acquired at fair value	(794,947)
Goodwill arising on acquisition	6,987,869
Satisfied by:	
Cash	833,250
Issuance of the Company's warrants	226,852
Issuance of the Company's shares	5,132,820

5. BUSINESS COMBINATION (Continued)

An analysis of the cash flows in respect of the acquisition of the Target Group is as follows:

	RMB'000
Cash consideration	(833,250)
Cash and cash equivalents acquired	1,529,258
Net inflow of cash and cash equivalents	696,008

The Group incurred transaction costs of RMB21,885,000 for this acquisition. These transaction costs have been expensed and are included in other expense in the consolidated statement of profit or loss.

Since the acquisition on 31 March 2016, the Target Group contributed revenue of RMB14,464 million and profit of RMB135 million to the Group for the year.

The goodwill recognised above is attributed to the expected synergies and other benefits from this acquisition. None of the recognised goodwill is expected to be deductible for income tax purposes.

(b) The principal activity of 騰達電器有限公司 ("Tengda Electrical Appliances Co., Ltd.") is the operation of retail stores for electrical appliances and consumer electronic products in Jiangxi Province in Mainland China (the "Tengda Business"). On 25 July 2016, the Group acquired the Tengda Business, which includes the operation of 62 retail stores and the related leasehold improvement and employees, for a cash consideration of RMB215 million.

The fair values of the acquired leasehold improvement and other identifiable net assets were considered to be not significant. The fair values of other identifiable assets of the Tengda Business as at the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*
Total identifiable net assets acquired at fair value	–
Goodwill arising on acquisition	214,966
Satisfied by:	
Cash	214,966

The goodwill recognised above is attributed to the expected synergies and other benefits from this acquisition of the Tengda Business. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of the Tengda Business is as follows:

	RMB'000
Cash consideration	214,966
Net outflow of cash and cash equivalents	214,966

Since the acquisition on 25 July 2016, the Tengda Business contributed revenue of RMB216 million and loss RMB26 million to the Group for the year.

Had the business combinations taken place at the beginning of the year, the revenue and the loss of the Group for the year would have been RMB80,318 million and RMB5 million, respectively.

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

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

	Notes	**2016** **RMB'000**	2015 *RMB'000*
Revenue			
Sale of electrical appliances and consumer electronic products		**76,695,025**	64,595,127
Other income			
Income from suppliers, net		**389,405**	461,105
Management and purchasing service fees from the Target Group	*(i)*	**31,656**	250,000
Income from air-conditioner installation		**192,764**	149,188
Gross rental income		**297,474**	311,958
Government grants	*(ii)*	**177,079**	163,397
Other service fee income		**340,263**	271,270
Income from compensation		**104,037**	14,170
Other income from telecommunication service providers		**89,432**	171,963
Commission income from providing on-line platforms		**118,525**	123,484
Others		**99,163**	67,957
		1,839,798	1,984,492
Gains			
Fair value gain on investment properties		**5,198**	9,534
Fair value gain on derivative financial instruments		**109,121**	–
Fair value gains, net:			
Equity investments at fair value through profit or loss		**10,207**	–
		1,964,324	1,994,026

Notes:

(i) For the year ended 31 December 2016, the management service fees from the Target Group represented the transactions between the Group and the Target Group for the period from 1 January 2016 to 31 March 2016. For the purchasing service fee, the relevant agreement has not been renewed upon its expiry on 31 December 2015.

(ii) Various local government grants were received to reward the Group's contributions to the local economy. There was no unfulfilled condition or contingency attaching to these government grants.

7. PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
Cost of inventories sold	**66,318,216**	55,082,038
Depreciation	**723,993**	500,978
Amortisation of other intangible assets*	**39,700**	23,438
Amortisation of land lease payment	**23,074**	1,979
Loss on disposal of items of property and equipment***	**5,859**	7,957
Impairment of goodwill***	**22,986**	–
(Gain)/loss on equity investments at fair value through profit or loss	**(10,207)**	206,758
Minimum lease payments under operating leases	**4,360,033**	3,564,687
Impairment provision for items of property and equipment***	**37,852**	12,695
Fair value gain on derivative financial instruments	**(109,121)**	–
Foreign exchange differences, net	**35,418**	10,770
Auditors' remuneration		
– audit services	**7,811**	9,229
– non-audit services	**762**	877
Staff costs excluding directors' and chief executive's remuneration:		
Wages, salaries and bonuses	**2,597,935**	2,119,882
Pension scheme contributions**	**615,472**	486,881
Social welfare and other costs	**77,402**	57,319
Equity-settled share option expense	**294**	1,686
	3,291,103	2,665,768
Gross rental income	**(297,474)**	(311,958)
Net fair value gain on investment properties	**(5,198)**	(9,534)

Notes:

* The amortisation of other intangible assets for the year is included in "Administrative expenses" in the consolidated statement of profit or loss.

** At 31 December 2016, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2015: Nil).

*** These items are included in "Other expenses" in the consolidated statement of profit or loss.

8. FINANCE (COSTS)/INCOME

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

	2016	2015
	RMB'000	*RMB'000*
Finance costs:		
Interest on bank loans	**(27,739)**	(43,226)
Interest on bonds payable	**(206,876)**	–
	(234,615)	(43,226)
Finance income:		
Bank interest income	**231,794**	253,999

9. INCOME TAX EXPENSE

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

	2016	2015
	RMB'000	*RMB'000*
Current income tax	**230,455**	651,977
Deferred income tax	**(17,767)**	(11,720)
Total tax charge for the year	**212,688**	640,257

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

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

Under the relevant PRC income tax law, except for certain preferential treatments available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2015: 25%) on their respective taxable income. During the year, 47 entities (2015: 26 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

The Group realised tax benefits during the year through applying the preferential corporate income tax rates and the corporate income tax exemptions. These preferential tax treatments were available to the Group pursuant to the enacted PRC tax rules and regulations and are subject to assessment by the relevant PRC tax authorities.

No provision for Hong Kong profits tax has been made for the Group for the year ended 31 December 2016 of the Group (2015: RMB41,000).

9. **INCOME TAX EXPENSE (Continued)**

A reconciliation of the tax expense applicable to profit or loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the Group's effective tax rate, is as follows:

			2016		
	Hong Kong		**Mainland China**		**Total**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*
(Loss)/profit before tax	**(83,983)**		**242,476**		**158,493**
Income tax at the statutory tax rate	**(13,857)**	**16.5**	**60,619**	**25.0**	**46,762**
Tax effect of preferential tax rates	**–**		**(43,082)**		**(43,082)**
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	**–**		**23,650**		**23,650**
Income not subject to tax	**(19,349)**		**–**		**(19,349)**
Expense not deductible for tax	**22,084**		**8,759**		**30,843**
Tax losses utilised from previous years	**–**		**(109,824)**		**(109,824)**
Tax losses not recognised	**11,122**		**272,566**		**283,688**
Tax charge at the Group's effective rate	**–**		**212,688**		**212,688**

			2015		
	Hong Kong		Mainland China		Total
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*
(Loss)/profit before tax	(142,026)		1,718,777		1,576,751
Income tax at the statutory tax rate	(23,434)	16.5	429,694	25.0	406,260
Tax effect of preferential tax rates	–		(68,015)		(68,015)
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	–		48,319		48,319
Income not subject to tax	(3,537)		(28,479)		(32,016)
Expense not deductible for tax	9,157		89,574		98,731
Tax losses utilised from previous years	(5)		(77,180)		(77,185)
Tax losses not recognised	17,860		246,303		264,163
Tax charge at the Group's effective rate	41		640,216		640,257

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. At 31 December 2016, save for the withholding tax provided on the dividends declared out of the current year's profits by the Group's subsidiaries established in Mainland China, no deferred tax has been recognized for withholding taxes that would be payable on the remaining unremitted earnings in these subsidiaries that are subject to withholding taxes. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised for approximately RMB6,602,557,000 at 31 December 2016 (2015: RMB6,591,722,000).

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

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 20,797,082,000 (2015: 16,960,613,000) in issue during the year.

The calculation of the diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 as the impact of the warrants and share options outstanding had no dilutive effect on the basic earnings per share amounts presented.

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

	2016	2015
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	**325,139**	1,207,963

	Number of shares	
	2016	2015
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**20,797,082**	16,960,613

11. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
Interim:		
Cash dividend of Nil (2015: HK2.10 cents (equivalent to RMB1.62 fen)) per ordinary share	**–**	274,769
Proposed final:		
Cash dividend of HK0.70 cent (equivalent to RMB0.59 fen) (2015: Cash dividend of HK1.50 cents (equivalent to RMB1.23 fen)) per ordinary share	**130,056**	208,416
	130,056	483,185

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

12. OTHER INVESTMENTS

	Notes	2016 RMB'000	2015 RMB'000
Equity investments in Mainland China, at fair value			
Investment in Sanlian	*(i)*	**685,385**	595,013
Investment in MTC	*(ii)*	**300,730**	–
Equity investments, at cost	*(iii)*	**20,931**	–
		1,007,046	595,013

Notes:

(i) The balance as at 31 December 2016 represented the fair value of the Group's investments in 39,987,400 shares, representing approximately 15.84% of the outstanding issued shares of 三聯商社股份有限公司 ("Sanlian Commercial Co., Ltd." or "Sanlian"). Sanlian is a company established in the PRC and listed on the Shanghai Stock Exchange. The Group classified these investments as available-for-sale financial assets at 31 December 2016 and 31 December 2015. After initial recognition, the available-for-sale financial assets are measured at fair value, with gains or losses recognised in other comprehensive income until the investments are derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss.

Of the seven directors of Sanlian, two were nominated by the Group as at 31 December 2016 (31 December 2015: two). With reference to Sanlian's memorandum and articles of association and by taking into account the current shareholding structure of Sanlian, the directors of the Company consider that the Group has no absolute right to determine the composition of the board of directors of Sanlian or appoint directors to Sanlian and thus the Group does not have control or significant influence over Sanlian.

As at 31 December 2016, the fair value of these investments was based on the quoted market price of the listed shares, which was RMB17.14 (31 December 2015: RMB14.88) per share. During 2016, the gain in respect of the Group's other investments recognised in other comprehensive income amounted to RMB90,372,000 (2015: RMB212,992,000).

During 2016, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to Nil (2015: RMB28,726,100). The sales to Sanlian were made according to the published prices and conditions offered to other customers of the Group.

(ii) During 2016, the Group subscribed 30,193,814 shares of 深圳兆馳股份有限公司 ("Shenzhen MTC Co., Ltd." or "MTC") with a consideration of RMB370,780,000 representing approximately 1.67% of the issued shares. MTC is a company established in the PRC and listed on the Shenzhen Stock Exchange. The Group classified these investments as available-for-sale financial assets at 31 December 2016. After initial recognition, the available-for-sale financial assets are measured at fair value, with gains or losses recognised in other comprehensive income until the investments are derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss.

As at 31 December 2016, the fair value of these investments was based on the quoted market price of the listed shares, which was RMB9.96 per share. During 2016, the loss in respect of the Group's other investments recognised in other comprehensive income amounted to RMB70,050,000.

(iii) As at 31 December 2016, certain unlisted equity investments with a carrying amount of RMB20,931,000 (2015: Nil) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

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:

	2016	2015
	RMB'000	*RMB'000*
Outstanding balances, aged:		
Within 3 months	**126,513**	143,538
3 to 6 months	**28,284**	38,281
6 months to 1 year	**8,111**	7,620
	162,908	189,439

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

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**63,257**	71,769
Less than 3 months past due	**77,398**	90,910
Over 3 months past due	**22,253**	26,760
	162,908	189,439

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

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

The balances are unsecured and non-interest-bearing.

14. TRADE AND BILLS PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	**8,529,553**	6,375,469
Bills payable	**15,368,853**	12,915,462
	23,898,406	19,290,931

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

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**15,185,137**	10,976,395
3 to 6 months	**7,569,643**	7,211,206
Over 6 months	**1,143,626**	1,103,330
	23,898,406	19,290,931

The Group's bills payable are secured by the pledge of certain of the Group's:

(i) time deposits;

(ii) inventories;

(iii) buildings; and

(iv) investment properties.

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

15. BONDS PAYABLE

On 7 January 2016, 28 January 2016 and 10 May 2016, the Group issued bonds at par values of RMB3,000 million, RMB300 million and RMB1,700 million on the Shanghai Stock Exchange, which are repayable on 7 January 2022, 28 January 2022 and 10 May 2022, respectively. These bonds could be redeemed by the holder and the earliest repayment dates are 7 January 2019, 28 January 2019 and 10 May 2019, respectively. On 8 December 2016, the Group issued non-public bonds at par values of RMB4,000 million, which is repayable on 8 December 2022. The bonds could be redeemed by the holder and the earliest repayment date is 8 December 2018. The interests are paid on annual basis.

After initial recognition, these bonds are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is calculated by taking into account transaction costs that are an integral part of the effective interest rate. The interest expense calculated based on the effective interest rate was RMB206,876,000 which was included in finance costs of the consolidated statement of profit or loss.

15. BONDS PAYABLE (Continued)

Movements of the bonds payable are as follows:

	RMB'000
Nominal value of the bonds issued	9,000,000
Direct transaction costs	(165,233)
Liabilities at the issuance date	8,834,767
Interest expenses on the bonds	206,876
Less: interest to be paid within one year	(192,158)
Included under non-current liabilities as at 31 December 2016	8,849,485

16. EVENTS AFTER THE REPORTING PERIOD

(i) On 3 March 2017, the Group and Barclays Bank PLC entered into a subscription agreement in connection with the issuance of US$400,000,000 5.0% bonds due in 2020. The estimated net proceeds of the bonds issuance, after deduction of expenses, amounted to approximately US$393.0 million, which the Group intends to use for the Group's business operations overseas and other general corporate purposes overseas. The bonds have been listed and quoted on the Singapore Exchange Securities Trading Limited ("SGX-ST") since 13 March 2017.

(ii) On 23 January 2017, the Group entered into an agreement with (a) 北京鵬潤投資有限公司 (Beijing Eagle Investment Co., Ltd.), (b) 多邊金寶商業有限公司 ("Duobian Jinbao Commercial Company Limited"), (c) 天津國美互聯網資產交易中心有限公司 ("Tianjin GOME Internet Assets Exchange Centre Company Limited"), and (d) 北京大康國際鞋城有限公司 ("Beijing Dakang International Shoes City Company Limited") (the "Vendors") pursuant to which the Group has conditionally agreed to acquire the RMB30,000,000 in the existing registered capital of the Target Company, representing 60% of the registered capital of 美信網絡技術有限公司 ("Meixin Network Technology Company Limited", a company incorporated in the PRC with limited liability) together with its subsidiaries (the "Target Company") from the Vendors at an aggregate consideration of RMB900,000,000. The Target Company is principally engaged in the business of a mobile social data platform. The transaction is expected to be completed before the end of March 2017. Upon completion of the acquisition, the Group will have 60% shareholdings of the Target Company. The Target Company will become a non wholly-owned subsidiary of the Group and the Target Company's financial results will then be consolidated into the financial statements of the Group. The Group is in the process of quantifying the impact of the acquisition.

(iii) On 25 January 2017, Sanlian transferred certain retail-related inventories, property and equipment to 山東大中電器有限公司 ("Shandong Dazhong Electrical Co., Ltd." or "Shandong Dazhong"), a wholly owned subsidiary of the Group, with a cash consideration of RMB55 million. The Group is in the process of assessing the fair values of the assets and liabilities acquired from this transaction.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

For the year ended 31 December 2016, GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (collectively known as the "Group" or "GOME") launched the strategic goal of "Total Retail Community Building with Omni-channel, New Scenario and Strong Linkage", and devoted effective effort in pursuing the transformation and development of the retail industry. Due to the impact of the temporary closure of some stores for reconstruction and renovation work in the first half of the year, the Group's profit for the year experienced a decrease as compared with the corresponding period in the previous year, but has phenomenal improvement in the second half of the year. The improvement in the performance results of the stores after the renovation and the increasing number of the customer demonstrated the validity and feasibility of a new business strategy, providing the Group with greater confidence in the future performance growth.

On 31 March 2016, the Group announced the completion of the major and connected transaction in relation to the acquisition of Artway Development Limited and its subsidiaries (the "Target Group"). With all the conditions of the acquisition satisfied, the Target Group's financials were officially consolidated with the Group's since 1 April 2016.

During the reporting period, the Group's online-offline total gross merchandise volume ("GMV") increased 31.05% year-on-year, with a 110.09% growth in e-commerce. The Group recorded sales revenue of approximately RMB76,695 million, representing an increase of 18.73% as compared with RMB64,595 million for the corresponding period last year. Online sales rose 58.75% to approximately RMB10,697 million, and comparable store sales declined by 9.42%. As a result of the transformation of the stores in the first-tier market and the continuing high-speed growth in the e-commerce business, the consolidated gross profit margin was lowered by 1.72 percentage points, from 17.81% in the corresponding period last year to approximately 16.09%. The Group's operating expense ratio rose from 15.70% in the corresponding period last year to approximately 15.88%, representing an increase of 0.18 percentage point over the period.

Overall, the Group's profit attributable to owners of the parent was approximately RMB325 million, representing a 73.10% decrease as compared with RMB1,208 million for the corresponding period last year. In addition, through the issue of corporate bonds with an aggregate nominal value of RMB9,000 million in the PRC during the year, the Group's cash and cash equivalents increased significantly to approximately RMB13,237 million as of 31 December 2016 from RMB7,438 million as at 31 December 2015.

The management believes the Group's investments and constructive steps taken in 2016 will speed up its flow volume and conversion rate, and drive strong earnings growth in the future.

FINANCIAL REVIEW

The financial information disclosed below includes the data of the Target Group from 1 April 2016, but does not include the figures of the Target Group from January to December 2015 and from January to March 2016. Since the acquisition of Target Group was completed on 31 March 2016, the financial information of the Target Group has been consolidated with the Group starting from 1 April 2016.

Revenue

During the reporting period, the Group's revenue was approximately RMB76,695 million, up 18.73% from RMB64,595 million in 2015. The Group's weighted average sales area was approximately 5,041,000 sq.m. and the revenue per sq.m. was approximately RMB15,214, decreased by 8.03% as compared with RMB16,542 for the corresponding period in 2015.

During the reporting period, aggregate sales of 888 comparable stores of the Group was approximately RMB45,791 million, down 9.42% from RMB50,554 million for the corresponding period in 2015. Sales revenue from the four regions of Beijing, Shanghai, Guangzhou and Shenzhen accounted for approximately 36% of the total revenue, as compared to 42% for the corresponding period last year, representing an increase in revenue contributed from the second-tier market.

Cost of sales and gross profit

Cost of sales of the Group was approximately RMB66,318 million in the reporting period, accounted for 86.47% of the revenue, which is close to 85.27% for the corresponding period in 2015. Gross profit was approximately RMB10,377 million, up 9.08% from RMB9,513 million in the previous year. The gross profit margin was 13.53%, decreased by 1.2 percentage points as compared with 14.73% for the corresponding period last year.

Other income and gains

During the reporting period, the Group recorded other income and gains of approximately RMB1,964 million, representing a decrease of 1.50% over that of RMB1,994 million in 2015.

Summary of other income and gains:

	2016	2015
As a percentage of sales revenue:		
Income from suppliers, net	**0.51%**	0.71%
Management and purchasing service fees from the Target Group	**0.04%**	0.39%
Income from air-conditioner installation	**0.25%**	0.23%
Gross rental income	**0.39%**	0.48%
Government grants	**0.23%**	0.25%
Income from extended warranties	**0.44%**	0.42%
Others	**0.70%**	0.61%
Total	**2.56%**	3.09%

For the year ended 31 December 2016, management service fees from the Target Group represented the transactions between the Group and the Target Group for the period from 1 January 2016 to 31 March 2016. For the purchasing service fee, the relevant agreement has not been renewed upon its expiry on 31 December 2015.

Consolidated gross profit margin

During the reporting period, as a result of the substantial increase in revenue contribution from the e-commerce business, which generally has relatively lower gross profit margin, and the transformation and renovation of the stores in the first-tier market, the Group's consolidated gross profit margin dropped by 1.72 percentage points from 17.81% for the corresponding period last year to 16.09%.

* Consolidated gross profit margin = (gross profit + other income and gains)/revenue

Operating expenses

During the reporting period, the Group's total operating expenses (including selling and distribution expenses, administrative expenses and other expenses) were approximately RMB12,180 million, accounted for 15.88% of sales revenue, slightly up by 0.18 percentage point as compared with 15.70% for the corresponding period in 2015.

Summary of operating expenses:

	2016	2015
As a percentage of sales revenue:		
Selling and distribution expenses	**12.32%**	12.06%
Administrative expenses	**2.58%**	2.45%
Other expenses	**0.98%**	1.19%
Total	**15.88%**	15.70%

Selling and distribution expenses

During the reporting period, as the Target Group's expenses have been added to the Group since 1 April 2016, the Group's total selling and distribution expenses increased from RMB7,792 million in the corresponding period last year to approximately RMB9,448 million, up 21.25%. The selling and distribution expenses ratio was 12.32%, increased by 0.26 percentage point as compared with 12.06% for the corresponding period in 2015. The increase in selling and distribution expenses ratio was mainly due to the rental expenses as a percentage of sales revenue increased by 0.19 percentage point from 5.18% in the corresponding period last year to 5.37% and the delivery expenses increased by 0.05 percentage point from 0.67% in the corresponding period last year to 0.72%. Overall, the Group's selling and distribution expenses ratio remained at a relatively stable level.

Administrative expenses

During the reporting period, the Group's administrative expenses were approximately RMB1,980 million, higher than that of RMB1,581 million for the corresponding period in 2015 by 25.24%. As discussed above, it was mainly due to the adding of the Target Group's expenses to the Group since 1 April 2016. The expenses over revenue ratio was 2.58%, slightly increased by 0.13 percentage point as compared with 2.45% for the corresponding period in 2015. The Group has always strive to strengthen its control over administrative expenses in order to maintain its expenses over revenue ratio at a relatively low level in the industry.

Other expenses

During the reporting period, other expenses of the Group mainly comprised, among others, business tax, bank charges and loss on close down of stores, which decreased slightly from RMB769 million in 2015 to approximately RMB752 million. The expenses over revenue ratio was approximately 0.98%, down 0.21 percentage point as compared with 1.19% in 2015.

Profit before finance (costs)/income and tax

During the reporting period, as a result of the decrease in the consolidated gross profit margin and increase in the operating expenses ratio, the Group's profit before finance costs/income and tax decreased by 88.21% from RMB1,366 million in 2015 to approximately RMB161 million.

Net finance costs/income

The Group's finance costs were mainly interest on bank loans and corporate bonds while finance income was mainly bank interest income. During the reporting period, the Group issued corporate bonds with an aggregate nominal value of RMB9,000 million, the related interest expenses was approximately RMB207 million. As a result, the net finance costs (finance income less finance costs) was approximately RMB3 million while there was a net income of RMB211 million for the corresponding period last year.

Profit before tax

During the reporting period, the Group's profit before tax was approximately RMB158 million, which decreased by 89.98% as compared with RMB1,577 million in 2015.

Income tax expense

During the reporting period, the Group's income tax expense dropped from RMB640 million in 2015 to approximately RMB213 million. The management considers the effective tax rate applied to the Group for the reporting period is reasonable.

Profit for the year and earnings per share attributable to owners of the parent

As discussed above, as a result of the decrease in consolidated gross profit margin and an increase in operating expenses ratio during the reporting period, the profit attributable to the owners of the parent decreased by 73.10% from RMB1,208 million for the corresponding period last year to approximately RMB325 million. However, the profit in the second half of 2016 was approximately RMB201 million, increased significantly as compared with RMB124 million for the first half of 2016.

During the reporting period, the Group's basic earnings per share were RMB1.6 fen, as compared with RMB7.1 fen for the corresponding period last year.

Cash and cash equivalents

As at the end of the reporting period, cash and cash equivalents held by the Group were approximately RMB13,237 million, which were mainly denominated in Renminbi and the rest in US dollars, HK dollars and other currencies, and represent an increase of 77.96% as compared with RMB7,438 million as at the end of 2015. The increase was mainly attributable to the issuance of corporate bonds by the Group with an aggregate nominal value of RMB9,000 million during the year.

Inventories

As at the end of the reporting period, the Group's inventories amounted to approximately RMB11,606 million, representing an increase of 14.05% as compared with RMB10,176 million in 2015. The inventory turnover period decreased by 10 days from 70 days in 2015 to 60 days in 2016.

Prepayments, deposits and other receivables

As at the end of the reporting period, prepayments, deposits and other receivables of the Group amounted to approximately RMB4,731 million, increased by 11.45% from RMB4,245 million as at the end of 2015.

Trade and bills payables

As at the end of the reporting period, trade and bills payables of the Group amounted to approximately RMB23,898 million, increased by 23.88% from RMB19,291 million as at the end of 2015. Trade and bills payables turnover days were approximately 119 days, decreased by 14 days from 133 days for the previous year.

Capital expenditure

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB1,017 million, representing a 79.37% increase as compared with RMB567 million in 2015. The capital expenditure during the year was mainly for opening of new stores, remodelling of stores and purchase of hardware equipment relating to ERP project by the Group.

Cash flows

During the reporting period, with the continuing improvement in its operational efficiency, the Group's net cash flows generated from operating activities amounted to approximately RMB2,685 million, increased significantly by 104.49% as compared with net cash flows of RMB1,313 million in 2015.

Net cash flows used in investing activities amounted to approximately RMB1,454 million, reduced by 10.14% as compared with RMB1,618 million used in 2015.

Net cash flows from financing activities amounted to approximately RMB4,501 million while RMB1,067 million was used in 2015. The net cash inflows this year was mainly due to the issuance of corporate bonds by the Group with an aggregate nominal value of RMB9,000 million.

Contingent liabilities and capital commitment

At the end of the reporting period, the Group has no material contingent liabilities, but there were capital commitments of approximately RMB137 million.

Foreign currencies and treasury policy

All the Group's income and a majority of its expenses were denominated in Renminbi. The Group has adopted effective measures to reduce its foreign exchange 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 estimates that less than 10% of the Group's current purchases are imported products and the transactions are mainly denominated in Renminbi.

Financial resources and gearing ratio

During the reporting period, the Group's working capital, capital expenditure and cash for investments were mainly funded from cash on hand, cash generated from operations, interest-bearing bank loans and corporate bonds.

As at 31 December 2016, the total borrowings of the Group were the interest-bearing bank loans and the corporate bonds.

The interest-bearing bank loans comprised bank loans of US$286 million (equivalent to approximately RMB1,987 million) in aggregate bearing interest at floating rates and a bank loan of JPY50 million (equivalent to approximately RMB3 million) bearing interest at a fixed rate. The interest bearing bank loans were repayable within 2 years.

The corporate bonds comprised (1) corporate bonds with an aggregate nominal value of RMB5,000 million issued at fixed coupon rates ranged from 4.00% to 4.50% per annum with duration of 6 years, the Group shall be entitled to adjust the coupon rates and the investors shall be entitled to sell the outstanding bonds back to the Group at the end of the third year; and (2) corporate bonds with an aggregate nominal value of RMB4,000 million issued at a fixed coupon rate of 5.67% per annum with duration of 6 years, the Group shall be entitled to adjust the coupon rate and the investors shall be entitled to sell the outstanding bonds back to the Group at the end of the second and fourth year.

The Group's financing activities continued to be supported by its bankers.

As at 31 December 2016, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to approximately RMB10,840 million over total equity amounting to approximately RMB20,975 million, increased from 5.82% as at 31 December 2015 to 51.68%.

Charge on group assets

As at the end of 2016, the Group's bills payable and interest-bearing bank loans were secured by the Group's time deposits amounting to approximately RMB5,383 million, certain inventories with a carrying value of approximately RMB567 million and certain buildings and investment properties of the Group with a carrying value of approximately RMB2,430 million. The Group's bills payable and interest-bearing bank loans amounted to approximately RMB17,359 million in total.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2016, the Group employed a total of 43,013 employees. The Group recruits and promotes individuals based on merit and their development potentials. Remuneration package offered to all employees including Directors is determined with reference to their performance and the prevailing salary levels in the market.

OUTLOOK AND PROSPECTS

The Integration of Online and Offline Accelerated By Internet Technology; To Boost the Development of New Retail Ecosystem towards Technology

In view of the trend of the integration of online and offline, along with the consumer structure upgrading and new norm of consumption, GOME is also actively exploring the path and model of new retail. Through the connection between products, membership and services online and offline, GOME maximized the integration of both online and offline. Meanwhile, by leveraging on technology and big data, GOME could analyze users' behavior in different scenarios to better exploit and satisfy customer demand, so as to create a new retail ecosystem. In the future, GOME will be transformed from an "appliance retailer" to an integrated provider of products and services with the theme around "home". Relying on the strong support by "supply chain", "new scenario" and "after-sale services", GOME will continuously upgrade the new retail strategy.

- ***Business Scope Expanded by New Retail Scenario***

  The mutual traffic brought by the integration of online and offline resources assists GOME to meet consumers' continuously upgraded diversified ways of consumption. Through building the diversified "integrated solution provider for households" and "entertainment + leisure", GOME is equipped to comprehensively provide customized, quality, professional services to consumers especially young consumers for the sake of their increasing demand in high quality, on-trend entertainment and interactive product experiences. Therefore, consumers will be able to enjoy the impressive one-stop shopping experience, which will benefit and strengthen the new traffic attraction initiatives and eventually driving the sales growth of the Group.

  GOME stores achieved the transformation from being a home appliance retailer to become an integrated "home appliance + home furnishing" service provider through building the integrated customized solutions, including home furnishing & design, water heating system, integrated cabinet, central air conditioning, etc. The real experience halls, such as clothes dryers, air purifiers, etc., established in GOME stores are aimed to create the "second living space" for the consumers.

  The integration of the eSports and net café elements into offline stores represented GOME's achievements in building the "product + game" oriented scenarios, so as to strengthen GOME's ability in operation, as well as transfer the traffic to sales revenue, a momentum bringing up profit; The rapid progress of VR cinema and continuously deepening baking classes allowed GOME to achieve the integration of "product + leisure" scenarios for the sake of consumers' greater demand for entertainment and leisure activities.

- ***Strong Supply Chain Enhances Core Competitiveness***

  With the supply chain as its core, GOME further optimized its product mix in terms of product differentiation, mid-to-high end products and arbitrage, so as to improve its operation ability and profitability of merchandise sales. By strategically cooperating with core suppliers, the Group is better able to provide customers with cost-effective goods. Meanwhile, by enhancing delivery efficiency, the Group leverages on its full logistic network coverage and develops its self-constructed warehouse to provide "one-stop service of delivery and installation" and facilitate its ability of logistic distribution. The Group continued to develop and deepen its overseas e-commence business, further accelerate its import and export capacity of the supply chain. At the same time of continuously escalating its strategy on the Internet TV sector, GOME integrated advantages and content layout of other parties to dominate the "entertainment hub" of smart appliances, and quickly attract young customer groups. Drawing on the investment layout in smart phone and smart products market, meanwhile, GOME successfully achieved the supply chain integration both in mobile and smart hardware.

- ***IoT Construct After-Sale Services Market***

  Purchase of goods no longer indicates the end of a transaction while it is the start of after-sale services. Based on its cloud service, GOME leverages on IoT technology to build the strong linkage between the smart home appliances and end users, so as to construct an IoT home ecosystem of GOME. Meanwhile, for the sake of the establishment of the most valuable IoT platform, GOME set foot in smart home appliances to complete its "data collection system", which allows GOME to provide services to the users during the whole life cycle of appliances, and elevate the threshold of home appliance retail industry and its own profitability.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to upholding good corporate governance practices. For the year ended 31 December 2016, the Company was in compliance with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors of the Company. Having made due and careful enquiry, the Company confirms that all Directors have complied with the Model Code during the year ended 31 December 2016.

AUDIT COMMITTEE

The Audit Committee of the Company comprises Messrs. LEE Kong Wai, Conway, NG Wai Hung and LIU Hong Yu (being the independent non-executive directors of the Company) and YU Sing Wong (being the non-executive director of the Company). 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 2016 and the draft auditors' report thereon and submitted its reports to the Board.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2016, the Company repurchased an aggregate of 494,108,000 shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are as follows:

Month/Year	Number of shares repurchased	Highest price	Lowest price	Aggregate consideration (excluding expenses)
		HK$	*HK$*	*HK$*
May to July 2016	494,108,000 Shares of HK$0.025 each in the share capital of the Company	1.00 per Share	0.89 per Share	461,295,520
	494,108,000 Shares			461,295,520

The shares repurchased during the year ended 31 December 2016 were cancelled upon repurchase and accordingly, the issued share capital of the Company was reduced by the nominal value thereof.

During the year ended 31 December 2016, the Group issued (1) corporate bonds with an aggregate nominal value of RMB5,000 million at fixed coupon rates ranged from 4.00% to 4.50% per annum in the PRC, and (2) corporate bonds with an aggregate nominal value of RMB4,000 million at a fixed coupon rate of 5.67% per annum in the PRC. Such corporate bonds have a term of 6 years.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2016.

FINAL DIVIDEND

The Board recommended a final dividend of HK0.70 cent (equivalent to RMB0.59 fen) per ordinary share (the "Final Dividend") for the year ended 31 December 2016, amounted to approximately HK$153,772,000 (equivalent to RMB130,056,000) based on 21,967,465,000 shares in issue as at 31 December 2016.

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 for the Final Dividend in due course in accordance with the Listing Rules and applicable laws.

DIVIDEND POLICY

Currently, the Board anticipates that the dividend payout ratio of the Company will be maintained at approximately 40% of the Group's distributable profit generated during 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, the working capital requirement of the Group, business environment and availability of investment opportunities.

ANNUAL GENERAL MEETING

A notice convening the annual general meeting of the Company will be published and despatched 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 and the Company (www.gome.com.hk). The 2016 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 2017

As at the date of this announcement, the Board comprises Mr. Zou Xiao Chun as executive director; Mr. Zhang Da Zhong, Ms. Huang Xiu Hong and Mr. Yu Sing Wong as non-executive directors; and Mr. Lee Kong Wai, Conway, Mr. Ng Wai Hung, Ms. Liu Hong Yu and Mr. Wang Gao as independent non-executive directors.

* *For identification purpose only*